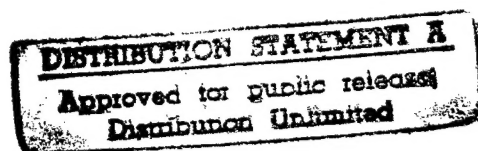


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CONTENTS

5 October 1992

INTERNATIONAL

UNITED STATES

'Fatal Weaknesses' in U.S. Global Military Strategy [XIANDAI GUOJI GUANXI 30 Jun] 1

NORTHEAST ASIA

First ROK Ambassador Presents Credentials [Seoul YONHAP 16 Sep] 6
Ambassador to ROK Presents Credentials [XINHUA] 6

NEAR EAST & SOUTH ASIA

Syria Welcomes More Firms to Damascus Fair [XINHUA] 6

POLITICAL

Vitalizing People's Congress Seen Essential Reform [QUNYAN 7 Jun] 7

ECONOMIC

NATIONAL AFFAIRS, POLICY

Tong Dalin on Modern Market Economy [ZHONGGUO JIDIAN BAO 9 Jul] 13
SPC Official on Overhauling Industrial Structure [GUANLI SHIJIE 24 May] 14
Economic Journal on Liberating Thought [JINGJI GUANLI 5 May] 19
Article on Survey of Enterprise Management [JINGJI YANJIU 20 May] 23

CONSTRUCTION

Goals, Benefits of Housing Investment Reform [QIUSHI 16 May] 29
Housing Reform in Experimental City Highlighted [QIUSHI 16 Jun] 34

FOREIGN TRADE, INVESTMENT

Patent Official on New Patent Law Amendment [GUOJI MAOYI 27 Jun] 37
Ministry Not To Recommend Products for Import Substitution [RENMIN RIBAO 22 Aug] 39

LABOR

Labor Head on Wage, Social Insurance Reforms [GUANLI SHIJIE 24 May] 40

AGRICULTURE

Article on Grain Supply, Demand Situation [JINGJI YANJIU 20 May] 46
Proposals for Improvement of Hog Market Management [NONGMIN RIBAO 28 Jul] 50

SOCIAL

New Characteristics of Abduction of Women, Children [SHEHUI 20 Jun] 52
Hunan Reports Ten Executions [Changsha Radio] 53
Factors in Mental Health Problems of Students [SHEHUI 20 Jun] 53

MILITARY, PUBLIC SECURITY

Military Forms Tri-Service Fuel Supply System [XINHUA] 56

HONG KONG, MACAO

Legco Member Downplays U.S.- Hong Kong Policy Act [MING PAO 19 Aug] 57

UNITED STATES

'Fatal Weaknesses' in U.S. Global Military Strategy

92CM0378A Beijing XIANDAI GUOJI GUANXI
[CONTEMPORARY INTERNATIONAL RELATIONS]
in Chinese No 35, 30 Jun 92 pp 9-15, 18

[Article by Zhao Guilin (6392 2710 2651): "Cursory Discussion of Consistencies and Weaknesses in United States Global Military Strategy"]

[Excerpts] With the dissolution of the Soviet Union and the end to bi-polarism, the Bush administration accelerated the revamping of its global military policy. It has also made substantial readjustments and reforms to the structure of its armed forces, force deployments, strategic alliances, and regional strategy. The chairman of the Joint Chiefs of Staff, Colin Powell, termed the current U.S. military strategy a post-cold war "defensive strategy," and the United States "National Defense Report" for fiscal year 1992 termed it a "regional defense strategy." How should the Bush administration's current global military strategy be evaluated? Just what changes have occurred in comparison with the previous strategy? What do these changes mean? What are their future prospects? The writer would like to express some cursory views on the foregoing questions. [passage omitted]

(1) Quest for Dominant Role Is the Basic Objective of U.S. Global Military Strategy

External military strategy is a continuation and augmentation of a country's foreign policy. During the entire cold war period after World War II, the United States relied on its powerful economic and military strength and its self-asserted position as leader of the world to give extremely powerful impetus to a whole body of foreign policies for holding sway over the world. As reflected in strategic military goals, this policy was an attempt to play the role of "world leader" and have a dominant global role. Although these methods met with opposition from the broad masses of people in the world, in the eyes of U.S. authorities, only one other superpower—the USSR—could contend with it for supremacy. Consequently, the global military strategy of the United States at every stage was to regard the former Soviet Union as its greatest real threat and major military opponent. By so doing, the United States aimed first at removing the greatest obstacle in the way of its global objectives; second, at using the Soviet threat as a way to ensure control over its allies; and third, at using the threat of war to halt the national liberation movements of the people of the Third World for the ultimate realization of the global strategic goals it promoted. With the dissolution of the Soviet Union and the end to the cold war between East and West, even though the Bush administration readjusted its global strategy in important ways, the basic objectives outlined above did not change fundamentally. Furthermore, if one maintains

that the realization of America's desire to rule the global roost, which was stimulated at the end of World War II, could be thwarted only by the development of the Soviet Union and other socialist countries, as well as the rise of national liberation movements (the United States achieving only a position as leader of the Western world alliance), then the dramatic changes that have taken place in Eastern Europe, particularly the dissolution of the Soviet Union, doubtlessly caused an inflation of these U.S. desires. As was noted in *National Military Strategy*—published in the United States on 28 January 1992—the United States must "play a unique role in the world," and serve as the sole nation that can influence the whole world through reliance on its military capabilities. It is necessary to ensure that the United States has a "deterrent force" and sufficient military power to "react" to any crisis in order to "discharge its global obligations in dealing with regional threats," as well as to "safeguard America's global interests" and "world stability." The United States can possess nuclear forces sufficient to wipe out the world 10 times over; nevertheless, it may interfere as it likes with other nations that possess nuclear facilities for self defense or even for peaceful purposes. The United States may become the world's biggest arms dealer, selling tens of billions of dollars worth of high technology weapons to the Middle East each year, but when other countries send a single shipload of munitions to the Middle East, the United States surveils the ship. If this is not power politics, what is it? If one claims that this is no different than ever, that is because the struggle for supremacy in the past has become a struggle for domination in the present. Today, not only does the United States want to continue to "consolidate" the "victory" it has won through the dissolution of the Soviet Union, it also wants to devote more energy to maintaining its position as the leader of the Western alliance and to interference in the Third World. (A recently disclosed Pentagon document summarizing U.S. defense goals reflects this point. This document says that the United States must ensure that absolutely no other superpower be permitted to compete with the United States in the wake of the collapse of the Soviet Union, particularly to compete with the United States through the formulation of defense policies that exclude it) The former pretext used for pursuing power politics was the "Soviet threat," but today it is "regional threats" that are emphasized, with the possible addition of "preventing upheavals in the former territory of the USSR," or a "resurgence of Great Russianism." But no matter the pretext, the United States has but one goal and that is to continue to promote a global domination military strategy, including control of its Western allies.

(2) "Deterrence" Is the Main Pillar of the United State's Global Military Strategy

As was said above, after World War II, U.S. global military strategy underwent several readjustments under many guises and names, but "deterrence" remains the central point of its military strategy. Americans themselves have given very many explanations of so-called

"deterrence," but it means essentially to let adversaries know in no uncertain terms that it possesses the capability to wage war on any scale, as well as the resolve to use this power, thereby scaring off adversaries. The only difference is the "deterrent" methods used at different times depending on changes in the balance of power between the United States and its opponent. During the 1945-1960 "containment" and "large scale retaliation" strategy period, for example, when the United States held a nuclear monopoly and subsequently, nuclear dominance, the "deterrence" that the United States emphasized was nuclear power. During the 1961-1980 "flexible reaction" and "real deterrence" strategy period, with the USSR's breaking of the U.S. nuclear monopoly and subsequent gradual achievement of nuclear parity with the United States, it added conventional forces to its former nuclear forces for "deterrence." After 1981, the United States relied on its powerful economic strength and scientific and technical dominance to build a combination offensive-defensive nuclear force (the "Star Wars" plan), and high technology weapons as "deterrence" chips, and it also enunciated the comprehensive "deterrence" concept. From this it is easy to reach the following conclusion: despite different emphasis at different times by the United States on the "deterrence" methods to be used and the target of "deterrence," there can be no doubt that "deterrence" has been the main pillar in the global military strategy of successive U.S. administrations. As stated in the United States "National Military Strategy" in 1992, "Deterrence remains the foremost and central stated goal of our (United States) national military strategy."

(3) Ensuring Military Superiority Is the Fundamental Premise Underlying U.S. Global Military Strategy

At different times, depending on military strategy requirements at different stages, the size of U.S. Armed Forces has increased and decreased, and the development of one kind of weaponry or another has received emphasis, but ensuring military superiority has remained the basic premise underlying the global military strategy of successive administrations. A review of the entire cold war period shows that despite numerous rounds of nuclear or non-nuclear weapons reduction talks between East and West, and despite agreements reached on one after another, arms reductions of this or that kind, the overall trend remained a more and more intense arms race as time went on, more kinds and numbers of weapons following every cut, more and more powerful weapons, and ever more accurate weapons. The basic reason for this was U.S. and Soviet pursuit of military superiority over each other. Take the United States, for example, whose efforts may be summarized in the following several regards: **First was a quest for nuclear superiority.** The consistent global military strategy of the United States shows that because the development of nuclear forces changed at different times, the U.S. quest for nuclear superiority went through the following several stages: nuclear monopoly, strategic nuclear superiority, tactical nuclear superiority,

and combined offensive-defensive strategic nuclear superiority. **Second was a quest for conventional weapons superiority.** This included naval and air military superiority, conventional weapons superiority, high technology weapons superiority, etc. **Third was a quest for military theory superiority.** In this connection, the United States constantly adjusted its military strategy, and it constantly studied and applied new combat theories, combat organization, and campaign tactics principles. **Fourth was a quest for superiority in command, control, and intelligence support systems.** Examples include C 31 technology and reconnaissance, surveillance, and target and management systems. In the view of the Americans, so-called maintenance of "superiority" means the United States being the militarily "strong one" in every situation, thereby assuring the effectiveness of "deterrence" as the central pillar of the U.S. global military strategy. After the end to the cold war between East and West, no change occurred in U.S. thinking on the maintenance of military "superiority." Some basic methods that the Bush administration has employed in recent years for readjusting U.S. military strategy attest to this point. "National Military Strategy," which was published in the United States in 1992, reiterates time and again that with regard to nuclear deterrence forces, the United States must continue to "maintain a modernized and dependable strategic deterrent force that is able to deal with any situation" in order to be able to deal with all kinds of "threats created by any potentially hostile nation." With regard to conventional forces, the United States must "gain and maintain a commanding position and superiority in the air, in space, and on the seas," and regard this position as the United States' "key to winning constant victories in global leadership." In the field of technology, this "strategy" provides that "the United States must vigorously rely on technological superiority," and maintains that this is "a key element in deterrent strength." Unlike before, not only is the emphasis today on superiority in strategic offensive nuclear strength, but also on superiority in combined offensive-defensive nuclear strength. Not only is the emphasis on maintenance of land, sea, and air superiority, but the winning of superiority in space is also proposed. Not only is it necessary to achieve superiority in conventional arms and equipment, but greater emphasis must be placed on superiority in high technology weapons. Not only must superiority be maintained in certain fields, but comprehensive superiority in quality must be attained in the military field in order to ensure that the United States holds "military combat capabilities second to none (in the world)."

(4) Maintenance of a Global Military Presence Is an Important Means For Advancing U.S. Global Military Strategy

In promoting their global military strategy since World War II, successive U.S. administrations have regarded maintenance of a global military presence as important, and they believe that this is the best way of demonstrating the soundness of strategic deterrence. It is not difficult to tell from looking at the global military

strategy that the United States has pursued at various times that the main methods employed to maintain a global military presence include first, maintenance of military forces in forward deployment, or what is termed the forward deployment strategy. So-called forward deployment means deploying armed forces in forward zones as close as possible to a hostile country's territory or territorial sea. Since World War II, U.S. global military strategy has paid extremely close attention to the important role of forward deployment as a deterrent at all times. Consequently, even though the size of the U.S. forces abroad did not correspond entirely with the deployment emphasis, under ordinary circumstances, the strength of its naval forces was maintained at approximately one-fourth of total military strength, and most of them were concentrated around the edges of socialist countries and in U.S. so-called hot spot areas. The United States maintained that these forces were the most effective peacetime method for promoting its global military strategy, and "for shouldering global obligations." In wartime, they also served as a strike force that could be committed to battle very quickly. Second was the establishment of widespread military alliances, or what is termed the "strategy of alliance." After the war, the United States signed multilateral or bilateral military treaties or agreements with scores of countries on the formation of large and small military blocs, and it used them to support the maintenance of a global military presence, and to promote its global military strategy. On the basis of these accords or treaties, the United States set up hundreds of naval and air bases in various parts of the world (currently it maintains approximately 370) where it stationed hundred of thousands or even a million U.S. troops, thereby attaining the goals of both "encircling" and "detering" hostile countries, and controlling its allies. Third, it conducted widespread military diplomacy. The United States vigorously conducted military diplomacy in the far-flung third countries of the world, employing a series of activities such as military "assistance" and cooperation, joint exercises and training, mutual visits of military forces and exchanges both to make "friendly contacts" and to allay anti-U.S. sentiment in these countries in order to control them. This also enabled the United States to obtain the right of passage through the territorial seas and the air space of these countries in wartime and the right to use their naval and air bases. Thus, it created conditions for the global presence of U.S. armed forces. Fourth, it established caches of military equipment abroad. In order to ensure a "quick reaction" in wartime, the United States has established caches of war materials in numerous areas in the world since the 1980's. According to a foreign press dispatch, during the Reagan administration alone, the United States set up sufficient weapons caches in Europe to equip six divisions, and in the Pacific Ocean, the Indian Ocean, and the Atlantic Ocean, caches containing sufficient weapons and supplies to supply three marine amphibious brigades fighting independently for more than a month were stored aboard 15 cargo ships. The U.S. military believes that the caching of combat material is both necessary to U.S. global

military strategy and is an effective way in which to make up for shortfalls in its global military deployments. Through the various foregoing means, the United States was largely able to maintain a global military presence at all times. With the easing of the international situation in recent years, particularly with the disappearance of the Soviet Union's comprehensive threat to the United States, although the Bush administration is making readjustments in its global military strategy, and changing its "forward deployment" strategy to a "forward presence" strategy; nevertheless, basic thinking about maintaining an U.S. armed forces global presence has not changed, and positively will not change. Differences with the past will include a suitable decrease in the number of forces stationed abroad (particularly in Europe), and the closing of some naval bases, but the United States will emphasize even more the increased building of quick reaction forces and the ability to commit them. Permanent and traditional military alliances will change, their role possibly becoming relatively weaker, but the role of ad hoc military alliances may escalate further. The Gulf war was such an example. Moreover, in traditional military alliances, the United States will emphasize more the defense responsibilities and obligations of its allies. Not only will military diplomacy and the building of overseas caches of war materials not decrease or weaken, they may further intensify. As the 1992 "National Military Strategy" pointed out, formerly "the constant stationing of U.S. forces in areas of crucial importance to the national interests of the United States was crucial to the avoidance of crises and the prevention of war." In the future, expression of U.S.'s "reliability and its intentions to respond to crises will continue to depend on the intelligent stationing of forces."

Fundamental Weaknesses of the U.S. Global Military Strategy

Although there is a strong side to the U.S. global military strategy, for example, its strong comprehensive national strength and military might, the strategy also has fatal weaknesses. These are: the conflict between the United States' desire, on the one hand, to dominate the world strategically, and its strength and position and the international environment on the one hand.

(1) **Economically, Changed Times and Ability That Falls Far Short of Ambitions.** To be sure, the United States is still the most powerful economic power in the world today, and it will be able to maintain this position for a fairly long time to come. However, by comparison with the period immediately following World War II, its position began to decline long ago. At the end of World War II, The United States' GNP stood at approximately 48 percent of world GNP. By 1990, it had fallen to 26 percent. The United States has already fallen from its position as the world's largest creditor nation to the largest debtor nation with a national debt of \$3.6 trillion. In addition, high government deficits occur year after year (the deficit is forecast at \$362 billion for 1992), and it has a negative balance of trade. Without doubt, these will be enormous difficulties to surmount in U.S. pursuit

of a military strategy that has global domination as its goal. The "neo-isolationism" that is now taking place in the United States, and the Gulf war of 1991 provide the best evidence of this. Whether judged in terms of "two and a half wars," or its "one and a half wars" theories, the Gulf war may be calculated as being a "half war." Furthermore, in order to wage this "half war," the United States had to ask its allies to bear the major part of the cost (reportedly, U.S. allies paid \$53.7 billion of the total \$61 billion total cost of the war). As a result, some people say sarcastically that in the Gulf war, the Americans played the role of leasing out their armed forces; they became "beggar police." It can be expected that as the pattern of unequal economic development of the capitalist countries comes to play an increasingly prominent role, any change in the aforementioned situation will be difficult. Fatal weaknesses that include great expectations, a long front, and an ability that falls far short of ambitions will become more conspicuous in the future.

(2) Politically, Beset By Numerous Challenges and Mounting Obstacles During the Cold War, the main opponent posing a challenge to the U.S. domination of the whole world was the Soviet Union because the military strategy of successive U.S. administrations was to regard the Soviet Union as the main adversary, and to use countering the Soviet threat as a pretext for controlling its Western allies. Although the dissolution of the Soviet Union removed the main obstacle to the United States, at the same time, it also rocked the foundation for U.S. control of other Western countries, and laid bare other contradictions that the cold war between East and West had covered up. First, U.S. global strategy is encountering challenges from developed Western countries. In Europe, differences exist with the United States about the building of a new security system. The United States insists that a new security structure in Europe must have NATO as its nucleus, but some western European countries want the EC to play a greater role, and some advocate the founding of an independent European defense. Despite U.S. and British dissatisfaction, France and Germany have already begun to build a European military bloc based on their own armed forces, which will be included in the framework of the EC's political alliance. The split between the United States, and France and Germany actually reflects a contest between the United States and Europe over the right to lead Europe. In Asia, relying on its abundant economic strength, and responding to the opportunity presented by U.S. desire to play a larger political role in the world and carry more defense responsibilities, Japan has speeded up its movement toward being a major political power. Japan also intends to build a military force that matches its economic strength. Currently, conflicts between the United States and Japan over economic matters, trade, and even traditional cultural and ethical standards are quite common. In addition, on the issue of building a new world order, a marked divergence exists among the United States, Japan, and Europe. The United States insists that it must "play the dominant role" in the

building of a new international order." Japan, Germany, France, and even the United Kingdom oppose world domination by the United States and advocate "joint control" exercised by several principal Western countries sharing leadership. The conflicts among the United States, Japan, and Europe have upset the United States greatly. Americans even believe that the return of Japan and Germany to a leading economic and political position in the world will be "the development of most importance and of far reaching significance" during the 1990's. Second, U.S. strategy for dominating the globe has also run into strong opposition from the far-flung Third World. The United States has capitalized on its victory in the Gulf war and the dissolution of the Soviet Union to pressure developing countries in the name of so-called "democracy" and "human rights" in order to export Western values. It has also taken the "threat" that the Third World poses to its global military strategy as the main "threat" that the United States faces. Such methods have aroused the dissatisfaction of numerous developing countries. Quite a few Third World statesmen feel that U.S. advocacy of a new world order under its leadership is power politics that cannot be permitted. Thus, quite a few developing countries are improving their own defense capabilities and regional cooperation as a means of pursuing independent and autonomous existence and development.

(3) Militarily, Too Many Problems To Cope With and Countless Inconsistencies The United States has the most powerful armed forces in the world. The number of people on active duty in the Army, Navy, and Air Force alone totals 2.1 million. If reserves and non-military personnel are added in, the total reaches more than 4.7 million. Active units include 19 combat divisions and nine brigades (or groups) in the Army totaling more than 780,000; more than 760,000 in the Navy, and more than 590,000 in the Air Force. The number of aircraft of all types totals more than 23,800; vessels number more than 490; and combat missiles number more than 1,600. Even so, it has too many problems to cope with and faces countless inconsistencies in pursuing its global military strategy and in performing its role as world policeman. These inconsistencies are manifested not only in its guiding thought but also reflected in concrete actions as well. For example, the United States both wishes to dominate world affairs and also wants to make use of international organizations or collective strength in dispatching troops. It both wants to maintain a global military presence, extending its hands to every part of the world, and it also wants to pull back somewhat globally to reduce its military expense burdens. It both wants to control its allies' independent and centrifugal tendencies—particularly to contain the resurgence of Japan and Germany—and it also wants to readjust its relations with its allies to get them to bear more of the defense burden. It both intends to continue to protect its own military superiority, not abandoning the building of a combat potential for waging a major war, and even engage in large scale buying and selling of arms, but it also wants to reduce all countries' arms and levels of

military confrontation. The numerous foregoing inconsistencies will pose insurmountable difficulties in the building of U.S. Armed Forces. Take the high technology weapons superiority that the U.S. forces are pursuing as an example. First, the cost of building high technology weapons is high. Its limited funds for military expenditures will force it to reduce the number it buys. For example, a B-2 bomber costs \$500 million to build, and a "Patriot" missile costs \$1.1 million. The price of a modern tank and fighter plane has risen 10 to 100 times. Under these circumstances, the number purchased and put in service must be reduced (If the United States purchased 3,000 aircraft during the 1950's, in the 1980's it could buy only 200.) Moreover, no matter what high performance capabilities modern weapons may have, it is very difficult to use them on many battlefields at the same time. This is bound to conflict with the current preparations to deal with crises in many different

regions. Second the more complex the weapons technology, the higher the number of "man hours" needed for maintenance. The large C-5 transport plane, for example, requires 60 "man hours" of maintenance for every hour flown. This is also at cross purposes with U.S. troop reductions. Third, the more automated the equipment, the lower the intensity of peacetime combat readiness training, thereby occasioning a drop in the quality of combat personnel. The many accidents involving injury to friendly allied forces in the Gulf war demonstrates this. This is also at variance with the U.S. armed forces requirement for steadily improving troop quality. One may be sure that unless the United States abandons its aspiration to dominate the world, its goals and its strength, and both the subjective and objective inconsistencies cited above have been, are, and will continue to be fatal weaknesses that U.S. global military strategy cannot overcome.

First ROK Ambassador Presents Credentials*SK1609024992 Seoul YONHAP in English 0215 GMT 16 Sep 92*

[Text] Beijing, Sept. 16 (YONHAP)—No Chae-won, South Korea's first ambassador to China, presented his credentials to the Chinese head of state, chairman Yang Shangkun, on Wednesday morning.

At a 20-minute ceremony, Yang told No that he believed the visit to Beijing by South Korean President No Tae-u on Sept. 27 would be no less important than the establishment of relations between the two countries itself.

No's visit would be a turning point for efforts to promote closer ties between the two countries, Yang said. China will try to strengthen its relations with South Korea not only in economy but in other fields based on the president's visit, Yang added.

The credential presentation ceremony was attended by Chinese officials, including Vice Foreign Minister Xu Dunxin and Asian Affairs Chief Wang Fanying.

Ambassador to ROK Presents Credentials*OW1609093392 Beijing XINHUA Domestic Service in Chinese 0320 GMT 16 Sep 92*

[Text] Beijing, 15 September (XINHUA)—Zhang Tingyan, PRC's first ambassador extraordinary plenipotentiary to ROK, presented his credentials to President No Tae-u today.

No Tae-u had a friendly talk with Zhang Tingyan. He spoke highly of the significance of the establishment of diplomatic relations between the ROK and PRC, appreciated President Yang Shangkun's invitation to him to visit China in the near future, and expressed the belief that the visit would be successful. President No Tae-u

also appreciated the effort China made to relax tensions on the Korean Peninsula and maintain peace and stability in Asia.

Zhang Tingyan arrived in Seoul on 12 September. He paid an official call on Korean Foreign Minister Yi Sang-ok before he presented his credentials.

NEAR EAST & SOUTH ASIA**Syria Welcomes More Firms to Damascus Fair***OW0709141092 Beijing XINHUA in English 1316 GMT 7 Sep 92*

[By Gu Zhenlong]

[Text] Damascus, September 7 (XINHUA)—Syrian Deputy Prime Minister Rashid Akhtarini expressed hope today that more Chinese companies will participate in the next Damascus International Fair.

This came in an interview with XINHUA when Akhtarini visited the current fair.

"Participation of more Chinese companies in the fair will enable us to better familiarize ourselves with China's achievements, and will help promote cooperation between our countries," said the deputy prime minister.

He added that he admires the Chinese exhibits at the fair. These exhibits reflect the economic progress achieved by the Chinese people as well as China's genuine desire to develop economic ties with Syria, he said.

Ten industrial companies from the northeast China province of Liaoning are participating in the current fair which is due to end on September 10.

Vitalizing People's Congress Seen Essential Reform

92CM0357A Beijing QUNYAN [POPULAR TRIBUNE]
in Chinese No 6, 7 Jun 92 pp 4-9

[Article by Chen Zhiyuan (7115 5268 6678): "Vitalizing People's Congress System Essential to Reform"]

[Text] Editor's note: During the fifth meeting of the Seventh National People's Congress [NPC], the legal committee of the central committee of the Democratic League and the editorial department of QUNYAN magazine (Popular Tribune) invited a number of legal scholars and NPC deputies to attend a forum on vitalizing the people's congress system and promoting reform and the open policy. The forum was presided over by Comrade Lin Hengyuan [2651 0077 0337], chairman of the legal committee of the central committee of the Democratic League. Forum participants were (in order of the number of strokes in surname):

Wang Zhuqian [3769 5511 6197], deputy secretary general, National People's Congress Legislative Affairs Commission;

Jiang Ping [3068 1627], professor, China Politics and Law University; deputy, National People's Congress;

Xu Chongde [6079 1504 1795], professor, People's University

Li Jingxi [2621 2529 4406], professor, Xiamen University; deputy, National People's Congress;

Rui Mu [5360 3092], professor, Beijing University;

Wu Jianpan [0702 1696 3879], member, Chinese Academy of Social Sciences Law Institute;

Xiao Weiyun [5618 5588 0061], professor, Beijing University;

Duan Muzheng [4551 2606 2973], vice president, Supreme People's Court; deputy, National People's Congress;

Wei Dingren [7614 1353 0088], professor, Beijing University

Lin Hengyuan: All of you present here today are legal experts and some are even NPC deputies. I hope that you will offer some suggestions on how to vitalize the people's congress system and ensure the smooth execution of reform and the open policy in the light of the important speech Comrade Deng Xiaoping made during his inspection trip to the south. Please liberate your thinking and speak out freely.

Economic Development and Political Structural Reform

Wei Dingren: The recent speech by Comrade Deng Xiaoping is enormously significant for both spurring reform and openness and vitalizing the people's congress system. As I see it, there is a dialectical relationship

between the two. Reform and the open policy objectively require the vitalization of the people's congress system. Vitalizing the people's congress system, in turn, promotes reform and the open policy. Right now local township enterprises are developing very rapidly. Permanent organizations have been set up for people's congresses at all levels except the township level. A lot takes place in townships and towns, but no decision can be made until the township people's congress meets, which it does but once a year, so time is lost. In some localities, therefore, the presidium of the township people's congress has taken the initiative to name a permanent chairman to handle day-to-day matters and exercise its powers. Such a step is in line with the needs of economic development. In institutional terms, the absence of a permanent organization for the people's congress at the township level has created a void. Can a permanent organization be set up in accordance with the principle of efficient and simple administration?

Turning to the law-making process, the "Local Organic Law" and "Election Law" provide that the standing committee of the people's congress of a municipality that houses the seat of government of a province or autonomous region, or the standing committee of the people's congress of a sizable municipality approved by the State Council may formulate the necessary rules and regulations provided that such rules and regulations do not conflict with the constitution, the laws, administrative rules and regulations, or the local rules and regulations of the province or autonomous region in question. Such rules and regulations may be put into effect after being approved by the standing committee of the provincial or autonomous regional people's congress. Because of economic development needs, some people's congresses mentioned above must urgently introduce some rules and regulations. But after they report them to the standing committee of the provincial or autonomous regional people's congress, the latter often fails to reach a consensus in its deliberations, merely approving the proposed regulations in principle but shelving them for amendment. This practice does not seem to help accelerate the pace of economic construction. It is proposed that in the future, as long as such rules and regulations do not contradict legal documents promulgated by the higher authorities, all the municipality has to do is to report them for the record to the standing committee of the provincial or autonomous regional people's congress. This would help promote reform and openness and spur economic development.

Rui Mu: Before the dissolution of the Soviet Union, the point was often made that the Soviet Union tackled political reform first and economic reform second, whereas just the opposite happened in China: economic reform came first, perhaps followed by political reform. I think this is a misconception. The fact is that in China economic reform and political reform are proceeding at the same time. The most striking example is that we have abolished lifelong tenure for leading cadres, and written into the constitution the terms of office for top national

leaders. The people's congress system has also made numerous improvements in the last decade and more. In the past, local people's congresses were unable to fulfill their role as organs of power for lack of permanent organizations. After reform, standing committees were set up. To make it easier for the NPC to do its job, NPC deputies decreased from 4,000 in 1978 to 3,500 in 1982 and again to 3,000 or so currently. These are the fruits of reform and meet the need of reform.

Wang Zhuqian: Since the Third Plenum of the 11th CPC Central Committee, China has been steadfastly conducting political structural reform under party leadership. The basic substance of reform is developing socialist democracy, perfecting the socialist legal system, and adhering to the people's congress system. The new constitution drawn up in 1982 includes a series of new and important regulations on the people's congress system. For instance, the standing committee of the NPC is given more power and the organization and work of the NPC are strengthened. The development of local people's congresses has been intensified. People's congresses above the county level nationwide are required to set up a standing committee. The provincial people's congress and its standing committee are authorized to make local laws and regulations, etc. Political structural reform has powerfully safeguarded and promoted reform and the open policy. For instance, by conferring legislative power on the standing committee of the NPC, it has significantly speeded up the legislative process, thereby spurring reform and openness with a legal basis and legal safeguard.

Xiao Weiyun: To accelerate reform and opening up, we must further improve the people's congress system. This requires ideological liberation. The people's congress should be bolder and faster in its work. In my opinion, the people's congress should do more legislative work. It should speed up legislation in enterprise law, banking law, and planning law. In addition, it should hasten to make laws to protect the household responsibility system of linking remuneration to output, and consumers' interests, and to promote honesty in government, thereby safeguarding and spurring reform and the open policy. Today legislative work still fails to keep up with what the reality demands. We must examine ways to improve this situation and ensure the quality of legislation but speed up the process as well.

Jiang Ping: To promote reform and openness, the people's congress system must be made more efficient. The formalism referred to by Comrade Deng Xiaoping exists to various degrees in the people's congresses as well. Each year, for instance, the deputies perfunctorily call a meeting and pass resolutions with a show of hands. Each year, inspections are organized perfunctorily. The money is spent but little is really achieved. In my opinion, the people's congress, the full potentation of both the institution as a whole and individual deputies has not tapped.

Wu Jianpan: To vitalize and perfect the people's congress system, we must begin by expanding its functions. Of its several functions, the most important are legislation and supervision. The top priority right now is to come to grips with legislation. According to statistics, in the 13 years between 1978 and 1991, the NPC and its standing committee formulated or amended 133 pieces of legislation, or 10 per year on the average. This figure highlights the huge gap between the pace at which the people's congress has been passing laws and what reform and the open policy really need. The problem, it has been suggested, is that the standing committee of the NPC has insufficient resources while the drafting of a variety of laws is very difficult, not something that can be rushed even if you want to. As I see it, if we are to promote reform and openness, we must intensify economic legislation and feel a sense of urgency about it. It is all up to us. As long as there is the resolve to reform, we can find a way.

Xu Chongde: A good political system is needed to ensure the realization of the people's interests and demands. The people's congress is precisely such a fundamental political system that ensures the realization of the people's interests and demands. This system possesses the persuasiveness of democracy as well as the coerciveness of the state. Its high degree of authoritativeness makes it fully capable of safeguarding the achievements of reform and the open policy and stimulating further progress in those areas.

Fulfilling the People's Congress' Functions

Xu Chongde: To spur reform and openness, the people's congress must fulfill four functions.

First, it must intensify legislative work relating to reform and the open policy. The NPC and the appropriate local people's congresses must step up research and studies and promptly draft and formulate laws and local regulations that favor reform and the open policy. The legislative process must be used to eliminate outmoded conventions, bad habits, and improper practices that impede reform and the open policy. There should be no waste in time in reviewing the experience of reform and opening up and write it into law. Legislation can proceed simultaneously with practice. That is, we should reform and make laws at the same time. But we also can make laws first and practice afterward, armed with a scientific far-sightedness and a comprehensive plan. In short, not only must we steer reform and openness into the orbit of the socialist legal system, thus endowing them with legal guidance and protection, but we must also accelerate reform and opening up to make the pace faster and bolder.

Second, people's congresses must exercise their power of appointment and dismissal more effectively to promote reform and openness. In exercising their personnel powers, organs of state power at all levels must make support for reform and the open policy an important criterion. Cadres who staunchly support reform and the

open policy and have achieved some success should be selected and promoted to positions of leadership at all levels. People who eschew reform and the open policy and are perhaps even opposed to it must be removed from office.

Third, people's congresses must exercise their policymaking power in major affairs of state more effectively. The NPC and its standing committee as well as local people's congresses and their standing committees must exercise their power to make decisions in major affairs of state effectively and promote reform and the open policy in earnest.

Fourth, people's congresses must intensify their supervision of the people's government, the people's court, and the people's procuratorate. In listening to and considering work reports submitted by these institutions at its level, a people's congress must make adherence to reform and the open policy its standard for evaluating the work of the government, the court, and the procuratorate. When the NPC is in session, its deputies may put questions to the State Council and its subordinate agencies in accordance with legal procedures. When a local people's congress is in session, its deputies may do likewise with its people's government and various functional agencies, the people's court, and the people's procuratorate. Through questioning, people's deputies can encourage the departments to do an even better job in reform and opening-up, supervising and urging them on. Other methods of supervision, such as setting up a committee of investigation and exercising the power of recall, may also be used to supervise the agencies and promote reform and the open policy. I have visited several places and discovered that in exercising their supervisory power, people's congresses everywhere are always more strict with the courts and more lenient with the government. That is why somebody commented at the national courts work conference that the people's congresses have gone too far in their supervision and are now running the show for the courts. How much supervision is right? That is something well worth looking into. At the moment it is more difficult to supervise the administrative branch of government. Some administrative agencies do not operate in accordance with the law but do as they please.

Jiang Ping: Of the four powers of a people's congress, I think the power of supervision is very important. Right now, however, it is not doing an effective supervision job. There are 3.6 million people's congress deputies at all levels. If every deputy keeps in touch with and supervises 10 people, we can supervise 36 million government and judicial officials at all levels, considerably boosting the drive for good and honest government. Without checks and balances and supervision, there will be abuses of power and corruption. That is a history-proven law. So a "supervision law" should be introduced soon. Once it does a good job in supervision, the people's congress will be able to fulfill its functions and expedite reform and the open policy.

Xiao Weiyun: Besides making laws, the people's congress also should inspect how the laws are being implemented. These days laws are being violated in a big way. In reviewing and considering the government work report, the national economic and social development plan, and the national budget, deputies should not study them so much as examine and scrutinize them to see if they are consistent with the reform and the open policy, with the constitution and the laws, and with reality. They should examine how effectively government works and its achievements. They should examine whether the government is spending money properly and see if there are major problems. The people's congress system has one other important function, namely, supervision. Supervision means more than listening and being told after the fact the circumstances surrounding a flood, a fire, or a train accident. It means holding the agencies and personnel involved accountable for the accident in question in accordance with the law, dismissing them if need be. Another major NPC responsibility is to examine administrative rules and regulations and local rules and regulations to see if they violate the law and, if so, rescind them. The NPC does not seem to have done anything in these areas in recent years. More needs to be done here.

Wu Jianpan: The masses earnestly hope that the people's congress would put its power of supervision to good use. Negative phenomena have been proliferating in society and corruption has reached serious proportions over the past few years in the wake of reform and opening up. Some government officials violate discipline, break the law, and do as they please. The people's congress should get down to business and live up to its role as a watchdog of unconstitutional and illegal behavior. After the CPC Central Committee decided on a policy of accelerating reform and opening up, the nation began to flourish. If the people's congress fails to intensify its efforts in legislation and supervision, it will be a drag on reform and the open policy.

Li Jingxi: Deputies to a people's congress should exercise their supervisory power. The way inspection is organized these days, it is the leaders who decide what the deputies should see, usually the positive side of things and report only the good news and not the bad. For instance, we have a hard time trying to inspect a mismanaged enterprise or the work of public security organs, procuratorial organs, and people's courts. Nor do we have the opportunity to visit the ordinary people at home. Wherever we go on an inspection tour, we can only gain a superficial understanding through cursory observation. We are not free to choose. The money is spent but little good is actually done. In the future, I think there should be more special inspection tours and fewer general tours. There are experts among the deputies. These experts should be sent to inspect their own fields, thereby giving the deputies a sense of responsibility and a sense of mission. Such inspections are more likely to uncover and resolve problems. Questions raised by the deputies during an inspection should be responded to promptly.

Wang Zhuqian: The people's congress' supervisory power is given to it by the constitution and symbolizes the people exercising of state power. At the nation's mayors' conference held in Taiyuan in the fall of 1988, mayors from 25 cities across the nation complained at length about the difficulties of being mayor. They said that "supervision over the mayor is not legal supervision but work supervision." It has come to resemble "adults supervising children, mothers-in-law interrogating their daughters-in-law." This is certainly a misconception. Supervision has to do with important things. When one supervises, the main concern is to see whether the law has been broken and whether the people's basic interests have been served, but not to meddle improperly in the functions and powers of the people's government, the people's court, or the people's procuratorate, or to take somebody else's job as one's own. On the one hand, deputies should not neglect their duty. On the other hand, they must not overstep their authority. Where should one draw the line? In the constitution and the law, supervision by the people's congress is supervision by the standing committee. It is a power organ collectively exercising the supervisory power. Nowadays some localities have organized deputies and standing committee members to review the work of judicial organs. They inspect the cases one by one and make suggestions, which in some places result in overturning the judicial decisions in over 70 percent of the cases. It is debatable whether such a practice is desirable.

Vitalizing People's Congress Organizations At All Levels

Rui Mu: To make the most of the people's congress system, we should focus on legislation. Naturally it is difficult and unwieldy for 3,000 people to get together each year and discuss official business and make laws. We may subdivide the NPC's special committees further, depending on the needs, and increase the size of the committees. The finance and economic committee, for instance, can be broken up into the finance committee and economic committee; the foreign affairs committee too may be split up into the foreign diplomacy committee and foreign economic relations committee. The cultural, education, and public health committee has too broad a jurisdiction and should be split up into several committees, and so on. The NPC standing committee meets six times a year, but these special committees may meet a little more often and remain in session longer, say 10 to 12 times a year. The size of the legal work committee under the standing committee of the NPC may be increased somewhat. Moreover, it can be divided into several subcommittees which can jointly draft laws with the ministries and commissions under the State Council as well as its legal bureau and the legal departments of all local governments.

Duan Muzheng: The best way to strengthen the standing committee of the people's congress, it has been suggested, is to house a sizeable number of full-time deputies. Some people have even proposed that the standing committee be made up of full-time deputies completely.

I beg to disagree. Putting only full-timers on the standing committee will not necessarily improve the caliber of people's deputies. On the contrary, it may easily isolate the people's deputies from the masses, gradually giving rise to another kind of "official."

If we are to strengthen the people's congress system, we cannot afford to ignore the system's grass-roots organizations. Of the nation's 3.65 million people's deputies at all levels, township people's deputies alone number over 2.9 million, all of them directly elected by the voters. It was suggested recently that grass-roots elections take place once every five years instead of 3. I think this will erode the democratic basis of the people's congress system. Grass-roots work can be described as the weakest link in the current people's congress system, the very part that urgently needs to be strengthened, amplified, and improved. As rural economic life improves and population mobility grows, a three-year turnover becomes even more essential.

Wu Jianpan: The legislative function of the NPC does not meet the needs of reform and the open policy, so we must move fast to enhance its legislative capability. Perhaps we can do something about the methods, time, and organization of legislation. For instance, when there is a major and urgent piece of legislation that needs to be considered, the standing committee of the NPC may break with its tradition of meeting every two months and instead adopts a session system—staying in session for several months continuously and then going into recess. Beef up the organization and capability of the various special committees and put experts who know the ropes on the standing committee.

Li Jingxi: Formulating a "deputy law" is part of the organizational development of the people's congress system. In the past it was often said that "the work of a deputy is done as soon as the meeting is over." When the NPC is in session, even ministers show a good deal of respect to what you say. Once the meeting breaks up, however, there are no longer any responsibilities, except to "keep in close touch with the masses." It is a good thing we now have the Deputy Law laying down the rules. Nevertheless, the Deputy Law is long on procedural rules and short on substantive regulations. Yet it is the latter that stipulates the deputy's rights and obligations. The Deputy Law is skimpy on that kind of stuff. In my opinion, at least one additional article should be included in the law to the effect that when a deputy discovers that the people's legitimate rights and interests have been violated, he shall have the power to demand that the competent agency put an end to such violations and hold the perpetrators accountable. Only thus can we help the deputy exercise his powers.

Wang Zhuqian: To strengthen the people's congress' functions, we must resolve the problem of understanding. Even today some people have a hazy and even incorrect understanding of the people's congress. Some call it a rubber stamp, a resolution-adopting machine. Others call it a nursing home and characterize the

deputies and members of its standing committee as occupants of some honorary positions. Yet others see a seat on the congress as a preferential arrangement for aging veteran cadres and a reward for model workers and advanced elements. These perceptions have little to do with the nature and stature of the people's congress and are most damaging to any effort to put the people's congress to its best use. The standing committee of the people's congress is an organ of power as well as a functional agency with difficult tasks. The standing committee should include a number of elderly comrades who have a fairly high standard and a wealth of experience and can still work regularly, but it also should include a host of young and outstanding cadres who have both ability and political integrity to form a ladder-shaped structure to ensure the stability and continuity of the standing committee's work. As for its staffers, most of them should be young people and people in the prime of life.

Improving the Caliber of People's Deputies

Li Jingxi: If we say the people's congress is the supreme organ of power, the brain, then the people's deputies are the cells. The caliber of the cells and how active they are help determine the standard of the people's congress and the level of their scrutiny of the reports of the people's government, the people's court, and the people's procuratorate. At the moment, the people's deputies can be divided into two types. The first type mainly is comprised of workers, peasants, and soldiers from the grass roots; the second are cadres. They are different ideologically. Hence their different attitudes in scrutinizing government work reports. When they review the premier's work report, people in the latter group, accustomed as they are to their subordinate position, invariably say, "Studying your report has been very beneficial." Their mentality is not that of the supervisor, of being the supreme organ of power. Thus the relationship between the supervisor and the supervised is reversed. People in the first group are quite different. The first thing they say is, "Let me review and examine the premier's work report." With this kind of watchdog mentality, the quality of what he says is different. Of course, there are also people in this group who lack a representative mentality. They take a back seat at a meeting and don't say a word. Therefore, we ought to improve the people's congress system and make the deputies see themselves more as representatives and less as officials.

Rui Mu: As society and the economy change, so should the composition of the deputies. The general quality of people's deputies has to be improved. In addition, the number of full-time and professional deputies should be increased as appropriate. The composition of the NPC and that of the various local people's congresses need not be identical. There should be closer ties between people's deputies and the masses. In exercising the supervisory power over government agencies, a people's deputy must

not himself turn into another kind of administrative official. He should submit himself to popular supervision.

Jiang Ping: TV stations these days are running campaigns like "national quality marathon," which have proved very popular. Some people's deputies have proposed such campaigns as "judicial quality marathon" and "educational quality marathon." But what about the quality and work efficiency of people's deputies? Let us take a closer look at the quality and efficiency of the 3,000 deputies. In my opinion, neither the people's congress as a whole nor individual deputies have put themselves to the best possible use. At any level, it is the deputies that make up a people's congress, so the efficiency of the work of the people's congress depends first and foremost on the caliber of the deputies. Some people say, not without justification, that the overall quality of the NPC deputies is inferior to that of their counterparts at the Chinese People's Political Consultative Conference [CPPCC] and even people's deputies directly elected at the grass roots. Directly-elected grass-roots deputies have to compete for a seat on the congress. They are more interested in political participation and are under greater pressure to hold themselves accountable to the masses and submit themselves to mass supervision. In contrast, NPC deputies often do not know very well to whom they are accountable and who should supervise them, which explains their weak political consciousness. Many deputies have little aptitude for political participation or political discussion. Some do not speak a word in five years.

The Representative Law adopted at the fifth meeting of the latest NPC determined the deputies' rights and obligations and spells out how the deputies can exercise their functions and powers. However, it does nothing to improve the deputies' caliber. It is up to the nominating organizations and procedures to ensure the deputies' quality. It is not realistic to demand that as lawmaker, every deputy must master legal knowledge. On the other hand, it should be within his capability to have the courage to supervise and be good at supervision. As a matter of fact, many deputies from industry and agriculture, for instance, are of a fairly high standard. They have the courage to supervise and are good at it.

Duan Muzheng: The caliber of people's deputies needs to be improved. Any good system needs to be run by the right people. People's deputies should be able to run the nation and exercise state power on behalf of the people. The basic qualification is a mix of competence and political integrity. The advanced quality of people's deputies, in my mind, should be interpreted to mean an ability to develop close ties with the masses and an aptitude for political participation and political discussion. A person should not be elected deputy just because he is among the best and brightest in his profession or trade. Otherwise, the meeting of a people's congress would look like a model workers' meeting or a conference of outstanding workers. The position of people's deputy should not be an honorary one. Nor should we

put somebody on the people's congress as a favor. Some scholars and experts invited to join a people's congress find the responsibilities burdensome. Some poorly educated deputies have trouble understanding conference documents. How can we expect them to have a solid grasp of state affairs and be able to discuss them? There is yet another type of people who as leaders of some administrative agencies have privately expressed a disdain for the people's congress and CPPCC, dismissing them as mere window dressing. Even in their work they do not take the people's congress or CPPCC seriously. As they are about to step down from their leadership positions, however, they lobby frantically to win a seat on the people's congress, the CPPCC, or, better still, its standing committee. These people too do not make good deputies because they openly relegate the people's congress to the "second front." This is a misunderstanding of the roles and functions of the NPC, which goes against the constitution in both letter and spirit.

Many of the "arranged" deputies are past retirement age, which has another consequence: pushing up the deputies' average age. Some of them have been ailing for years. Hence the low attendance rates of some people's congresses and their standing committees.

Wang Zhuqian: To turn the people's congress into a truly authoritative organ of state power, we must improve the deputies' caliber. It is not good for the law to spell out in detail the requirements of a people's deputy. What we should do is to emphasize in practice that a deputy must have a strong aptitude for political deliberation and is able to fulfill the responsibilities of a deputy, represent the people's wishes, and participate in discussions and make decisions on major issues. Somebody wrote, "There is an endless attempt to exclude laboring people from organs of state power in the name of aptitude for political discussion." I beg to disagree. Ironically this kind of argument shows that, for one thing, the writer does not understand the duties and responsibilities of a deputy very well and, for another, he believes that

workers and peasants have no aptitude for political discourse, which explains why he thinks that anybody who mentions "aptitude for political discourse" is out to exclude laboring people from organs of power. The fact is that many peasants, workers, and soldiers have a strong aptitude in that area. Proposals that the quality of deputies be improved and that the position of people's deputy not be made an honorary one are essential to improving the people's congress system.

Lin Hengyuan: What you have said at the forum today covers a wide area and is immensely important. Every point made is highly relevant to vitalizing the people's congress system. The issue of vitalizing the people's congress system falls within the scope of political structural reform. Comrade Deng Xiaoping's admonition about accelerating reform and the open policy more boldly and putting economic construction on a sound footing as soon as possible has been highly encouraging to all of us. The latest NPC and CPPCC meetings have been very lively and spirited. Needless to say, the acceleration of reform and opening up and successful economic construction in the shortest time possible must be coordinated with political structural reform. In other words, economic structural reform cannot be achieved without the guarantee of political structural reform. And a prerequisite for political structural reform is a revitalized people's congress system. We should advance democracy, but also utilize the coercive power of the state to make the people's congress more authoritative, and legislation and policy-making more democratic and scientific. We must also exercise the supervisory power seriously and rigorously so that laws are adhered to and enforced strictly. Any violations of the law will be investigated and dealt with in accordance with the law. Any attempt to replace the law with power or to supplant the law with the word of one man would be sternly prohibited. Only by stamping out the rule of man and enforcing the rule of law can we ensure social stability and economic prosperity and development. This is all we have time for today. Thank you very much.

NATIONAL AFFAIRS, POLICY

Tong Dalin on Modern Market Economy
92CE0644A Beijing ZHONGGUO JIDIAN BAO
in Chinese 9 Jul 92 p 1

[Article by Wang Ziqiang (3769 5261 1730) and Wang Weizhong (3769 3555 0022): "Tong Dalin on GATT, Hastening Toward Modern Market Economy"]

[Text] Tong Dalin, a member of the State Restructuring of the Economic System Commission, is currently on a trip to observe conditions in Fujian, where reporters visited this famous scholar, a native of Xiamen.

Tong Dalin described Deng Xiaoping's important speech in the south as "everything I could have asked for." We are now faced with a new thought liberation movement greater in scope than the drive to establish practice as the criterion of truth. Deng Xiaoping's speech was very enlightening, and the more I read it the more I like it. I've identified several different issues in the speech and am researching them further. I'd like to focus today on the issue of accelerating the formation of a modern market economy in China.

Tong Dalin said that back in November 1979 comrade Deng Xiaoping said to the Deputy Editor-in-Chief of *Encyclopedia Britannica* in the United States, that it is incorrect to say that the market economy is not limited to capitalism. Why can't socialism make use of the market economy? During his trip to the south this year, he further stated clearly that the planned economy is not equivalent to socialism, and the market economy is not equivalent to capitalism. This means clearly that capitalism has no monopoly over the market economy.

The market economy and the commodity economy are in fact a single concept. This is a common, universal, objective law of human economic activity. It has been through different phases of historical development. In the modern period, due to the high degree of development of technology and management techniques, the commodity economy has new characteristics, namely: accessible information, accessible financial services, the emergence of knowledge as a product, and globalization. The emergence of knowledge as a product represents a new industrial revolution, and the knowledge industry will increasingly become the driving force behind social progress, constituting (along with physical production and economic networks) the third major base of the commodity economy. The term globalization refers to global markets, such as the new elevator products developed by United Technologies in the United States, elevator door systems manufactured in France, electronic products manufactured in Germany, and drive devices for electrical machinery designed in Japan. Due to the above characteristics, it can be termed a modern market economy.

Tong Dalin stated that the formation of a modern market economy in China is an important aspect of the

effort to further reform and opening up. "Friction" between the planned economy and the market economy is currently a major problem in the course of reform and opening up. The planned economy referred to here is the highly centralized Soviet model and system, which is totally different from economic planning (including various types of long-term, medium-term, and short-term, and ad hoc plans). Economic planning is the most generic method of engaging in economic activity. It is a part of the economic activity of any society, while the planned economy and the market economy are two different economic models and systems. Therefore, there is absolutely no need to tack on the word "planned" in front when referring to the market (or commodity) economy. It is redundant to do so if one is only referring to economic planning. We should expand the degree of openness in our economy by furthering reform. We should accelerate the transition from a centralized, planned economy to a modern market economy oriented toward the greater world market in order to move in step with the times.

Forming a modern market economy is also needed to create the conditions which will allow China to regain its position in the General Agreement on Tariffs and Trade (GATT). Failure to do so would leave China in a passive position. The GATT now has more than 100 member nations, and trade between GATT signatories accounts for more than 90 percent of all world trade, which is why GATT is known as "the economic United Nations." GATT members must observe the following principles: they must implement a market economy, engage in free competition, and prices must be determined by supply and demand; they must engage in mutually beneficial (equal) and fair trade without discrimination; tariffs must be the only means of protection; they must gradually eliminate trade barriers; in general, restrictions based on quantity are forbidden; and trade policies, laws, and regulations must be uniform throughout the nation.

China's current economic and trading systems, however, are still incompatible in some respects with the principles listed above. For example: prices are not completely determined by market supply and demand, tariffs do not play a central role in our foreign trade system; we make use of many types of trade restrictions, etc. All of these issues must be resolved as we further reform in order to adapt to conditions that will exist after China has regained GATT membership, and to make China's market economy become an integral part of the world market economy.

Tong Dalin emphasized that if we are to accelerate the formation of a modern market economy, the most pressing task is to separate government and enterprise activities, and to establish enterprise autonomy. Recently, Shoudu Iron and Steel Works wrote in an article that some people feel that all the authority that can be transferred to enterprises has already been transferred, and that decentralization has run its course. That is not true, in fact. Shoudu Iron and Steel Works still has not achieved autonomy over its foreign trade or

finances, nor does it have authority over investments or projects correspondent with an enterprise of its size. If this is the case for Shoudu Iron and Steel Works, one can imagine how much less autonomy other state-run enterprises would have. Without autonomy, how much vitality can an enterprise have? How can it meet the stern challenge posed by entry into the GATT? How can it compete internationally?!

Enterprises need autonomy. The shareholding system is one manifestation of this autonomy, and is also one of the supports of the modern market economy. According to Marxist theory, capitalism has no monopoly over the shareholding system. The shareholding system can be converted into a socialist "common ownership system." It is one form of socialism combining economics.

Tong Dalin stated that the modern market economy has the fiercest competition, and for business persons, scientists, technical specialists, and other laborers who are prepared to take part in competition, it will provide the greatest opportunity for them to take advantage of their skills. For this reason, some people say that the modern market economy is the economy of business people and laborers (including those who work with their minds as well as those who do physical labor). Such statements are not without merit. Because China's modern market economy will become an integral part of the world market economy, macroeconomic regulation and control of the modern market economy is no longer the affair of a single nation; regulation and control is international and global. It can be observed that any major political change or economic upheaval (especially an upheaval in financial markets) will sooner or later have an impact upon the economies of many nations. For this reason, after the modern market economy has formed, economic coordination will partially take the place of direct government intervention, and non-governmental economic organizations (such as labor unions, chambers of commerce, associations...) may play an increasingly important role.

SPC Official on Overhauling Industrial Structure

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[Article by Xue Liang (5641 0081), of the Long Term Planning and Industrial Policy Department of the State Planning Commission (SPC): "Industrial Policies and Readjustment of the Industrial Structure"]

[Text] I. Industrial Policies Are Ways To Achieve Macroeconomic Regulation and Control by Combining the Planned Economy With Market Regulation

Since the beginning of the reform and opening to the outside world, the delegation of economic management powers to the lower levels has expanded the authority of local governments, departments, and enterprises to make their own decisions; the mandatory plans have been reduced considerably to give greater play to the role

of the market mechanism; and the gradual reduction in the use of administrative means and emphasis on the use of economic means have had a positive impact on overcoming the weakness of centralized planning, its relative rigidity, and on invigorating the economy. However, the increased number of interested parties and the lack of supporting reforms have also brought on the phenomenon of over-decentralization, for example, investment and consumption getting out of control, serious duplication in construction, and so forth. Therefore, with the scope of direct regulation and control by state plans greatly reduced, how to achieve effective macroeconomic regulation and control and combine the advantages of both the planned economy and market regulation has now become a key problem that urgently needs solutions. Under these circumstances, industrial policies were introduced and developed.

Macroeconomic regulation and control is aimed at maintaining a balance between total supply and demand and rationalizing the economic structure. A balance between total supply and demand is prerequisite to large-scale expansion and sustained steady growth of the national economy, and structural rationality is the foundation for improving the quality and overall efficiency of the national economy. The central and active part of the economic structure is the industrial structure and its regulation and development. Industrial policies are a new way to achieve overall readjustment of the industrial structure, which is different from the direct regulation by state plans in the past. China's industrial policies consist of a whole set of policies and measures aimed at readjusting, improving, and updating the industrial structure and guaranteeing their implementation on the basis of giving full play to the guiding role of state plans as well as the role of the market mechanism. They play an important guiding role for both the macroeconomy and the microeconomy.

The readjustment of the industrial structure is in essence a matter of rational allocation of economic resources. Practice has proven that to readjust China's industrial structure, we must follow the principle of combining regulation through state planning with regulation through the market. Using the market mechanism to allocate resources is conducive to achieving more efficient use of resources, and the advantage is particularly obvious for short-term allocation of resources which calls for speed and flexibility. However, because of the inherent blindness and spontaneity of the market mechanism, its use for long-term allocation of resources is often attended by economic shocks and the payment of very high social prices. To deal with these problems, it is often necessary for the state to intervene even in the market economies of the Western countries. Presently in China, the market mechanism is still rudimentary and needs to be further cultivated and improved. We should also avoid taking the same tortuous path of structural development as the developed countries did. Therefore, for long-term allocation of resources, or major structural readjustment, China must rely mainly on regulation

through state planning, and for short-term allocation of resources, or partial structural readjustment, it should rely mainly on regulation through the market.

Industrial policies affect the entire society. They can help combine direct regulation with indirect regulation: on the one hand, by including direct regulation in state plans and guiding its implementation, bring the overall balancing role of regulation through state planning into full play; on the other hand, through policy pronouncements, informational guidance, and economic levers, guide the economic activities of the entire society, intervene in and give guidance to the market, create a specific policy environment, and bring the flexible and efficient role of market regulation into play, thereby achieving the goal of readjusting the industrial structure.

The "Decision on the Main Points of the Current Industrial Policy," issued by the State Council in March 1989, is China's first industrial policy. Its outstanding features: First, orders in which industries and products were to be supported as key projects by the state, restricted, or suspended were determined respectively in the fields of production, capital construction, technological transformation, and import and export trade, and according to the different conditions of each industry in social reproduction, thus pointing out the direction for the readjustment of the industrial structure. Second, a proposal was made at the same time to guarantee policy implementation mainly by the use of economic levers. Naturally this first industrial policy was rudimentary and inadequate, reflecting only a part of what an industrial policy should contain, but it was a breakthrough from the traditional pattern of planned management. Industrial policies have made two most important contributions to economic planning and macroeconomic regulation and control: 1) They have opened the way for the use of state policies not only to direct planning but also to guide the economic activities of society as a whole. 2) They have opened the way for the comprehensive utilization of all kinds of economic levers. The formulation and implementation of industrial policies is the focal point in the changing functions of planned management and a component part of the macroeconomic regulation and control system to be established by combining direct and indirect regulation and control. It will change and strengthen China's economic management, and will become the connecting link between the planned economy and market regulation.

II. Current Problems of the Industrial Structure

Through improving the economic environment and rectifying the economic order, the imbalance between total supply and total demand has been basically resolved. During the Eighth Five-Year Plan and in the 10 years from now, the emphasis of economic work should be shifted to readjusting the economic structure and improving performance. The problems of our present industrial structure and the international challenge fully demonstrate the necessity and urgency.

The following are the major problems faced by the present industrial structure:

1. The surplus production capacity of the manufacturing industries and insufficient capacity of the basic industries. In recent years, the production capacity of the manufacturing industries has been expanded blindly and too fast, and now it has not only gone far beyond market demands, but exceeded the supply capacity and tolerance of the basic industries. For example, by 1990, one-third of the cotton textile production capacity was left unused, and more than one-half of the production capacity for color television sets, refrigerators, and washing machines was idled. Even though the basic industries have grown at an average annual rate of 8.5 percent in the past 10 years, they still cannot meet the requirements of the over-expanded manufacturing industries.

2. The surplus capacity for low-grade products, but insufficient capacity for high-grade products, of the manufacturing industries. The light and textile industries cannot produce enough readily marketable goods, but keep turning out goods which do not sell and are already overstocked, falling far behind consumer demands which have turned from mere quantity to quality, variety, fashion, and multipurpose products. As to the machine-building and electronics industries, the output of ordinary machine tools accounts for nearly one half of the total output of machine tools, and there is a serious shortage of numerical control machine tools and heavy machine tools; the basic machine parts and electronic components produced are seriously obsolete; and machinery and electronic products are generally of low quality and reliability. The irrational internal structure and product mix of the manufacturing industries are the most important causes for the unusually fast-growing inventories and the serious drop in economic performance.

3. The problem of duplication in construction spreading from light manufacturing industries to heavy chemical industries. For example, the production capacity for ethylene, adding existing capacity to that of projects the state has already planned to build in the next 10 years, will exceed the projected market demand in the year 2000, and most of the raw material crude oil will have to be imported. The utility rate of the existing first-stage crude oil processing capacity is only 70 percent, and counting the need of projects now under construction or being considered, 20 percent of the capacity will still be left unused by the end of the Eighth Five-Year Plan. Under the circumstances, more than 10 provinces, cities, and departments are still trying to start new ethylene and oil-refining projects. The production capacity for textile polyester will also exceed our ability to supply the raw materials and the requirements of economic development. These projects involve huge investments and will greatly affect the industrial structure. Duplication in construction has already caused and will continue to cause great economic losses and further structural irrationality.

4. The irrational organizational structure of enterprises. Serious duplication in construction and the tendency of regional industrial structures to duplicate each other have inevitably resulted in the smallness and scatteredness of enterprises, most of which not large enough to be economical, and the lack of concentration for some manufacturing enterprises which are suitable for large-scale production. For example, only 20 percent of the cotton textile enterprises have more than 30,000 spindles; the average annual output of refrigerator manufacturers is under 60,000 units; and the country's 163 automobile factories have a total capacity of just 700,000 vehicles, only two having a capacity of more than 100,000 (large automakers in foreign countries generally have a production capacity of 1 million cars). The level of specialization and coordination among enterprises is low, and a rather large number of enterprises are either "large and all-inclusive" or "small but all-inclusive." Many small enterprises compete with large enterprises for raw materials and market.

The above-mentioned structural problems have caused tremendous waste in manpower, financial, and material resources and directly affected macroeconomic and microeconomic performance. Structure plays a critical role in pulling the entire economy forward. Whether real progress can be made in readjusting the industrial structure will have a bearing on whether the second-stage strategic goals of the modernization drive can be achieved completely and whether the national economy can maintain sustained, steady, and coordinated development in the future.

With our growing economic relations with foreign countries and the development of the reform and opening to the outside world, the changing world economic situation and reorganization of the international industrial structure will have an increasingly great impact on our economy and industrial structure. Now the changes and readjustments in the international industrial structure have posed serious challenges to our country.

1. The developed countries are speeding up the development of high-tech industries, and their share of the international market for high-tech products is growing rapidly. The high additional prices of these products have enabled the developed countries to make huge profits. Among the factors which determine a country's relative international predominance, science and technology are playing an increasingly important role. China's scientific and technological development is restricted by such factors as foundation, money, etc., and the real danger is that we may fall increasingly behind the developed countries technologically, which will further widen the economic gap.

2. The developed countries have vigorously adopted new and high technology to transform the traditional industries and speed up the upgrading and updating of products, which have not only maintained their monopoly or leading position on a few advanced production technologies, processes, equipment, and high-grade products in

these industries, but also greatly raised the market standards of the traditional industrial products and greatly reduced the proportion of labor in production costs. This has seriously weakened the relative advantages enjoyed by most developing countries, including China, in the production of labor-intensive primary products and low-grade goods.

3. In recent years, the economy has developed rapidly in Southeast Asian countries, whose industrial structure is similar to China's. Thus China not only has to face strong competition from the developed countries, the "four little dragons," and other new industrial countries and regions in developing technology-intensive industries and products of higher grades, but is also threatened by new competitors in traditional products and in attracting foreign investment.

4. In today's economic world, not only are regionalization, trading blocs, and the protectionism and technological monopoly of the developed countries, being strengthened, but, as China is trying to restore its place in the GATT, the developed countries are also taking advantage of the opportunity to force China to open up its domestic market. Joining the GATT will speed up the process of linking China's industrial structure with the international industrial structure and expose China's industries directly to the full impact of international competition, which will be a serious challenge.

Of course, the world-wide expansion of new and high technology and the increase of the strength of the Southeast Asian countries as a whole will still take some time; the transfer of technology, equipment, and capital brought about by the readjustment of the international industrial structure and the increasing division of labor within international industrial organizations have also given us certain opportunities of international cooperation. Also, it is impossible for the developed countries to monopolize the entire international market. Still, there is room for China's development. If we fail, however, to seize the opportune moment of the 1990's and speed up upgrading our industrial structure, then our country can only find itself in a backward and passive position in the division of labor in the international industrial structure. For this, we must have a real sense of crisis and urgency.

III. Suggestions on the Direction of the Readjustment of the Industrial Structure and the Implementation of the Industrial Policies

1. Seize the crucial period of the next decade and strive to upgrade the industrial structure as soon as possible. The next decade is an important decade in which to achieve the second-stage strategic goals of the modernization drive and also a crucial period for China to meet the serious challenge from the reorganization of the international industrial structure and thereby raise our own industrial structure to a higher level. From now on we must not vacillate again on our guiding economic principles, and we must do a good job in readjusting the industrial structure while maintaining a balance between

total supply and demand. As the current trend of the world's industrial-technological progress shows, if we continue to rely on an industrial structure, which is of a low technological level and the labor-intensive type, we will ultimately fail in our effort to get our country out of its present status as a backward developing country. Only by opening still wider to the outside world, actively participating in international competition and cooperation, focusing the readjustment of the industrial structure on speeding up technological progress, taking full advantage of our position as a late starter to directly absorb the advanced technological achievements and development experiences of foreign countries, aiming at the international technological and economic standards and criteria for economies of scale, raising the starting point of our own industrial development, and turning our industrial structure from one of mainly low-value-increasing labor-intensive industries into one of mainly high-value-increasing technology-intensive industries, will it be possible to raise our economic and technological level and improve our industrial structure at a lower cost and in a shorter period of time and gain the initiative to follow, narrow the gap, catch up with, and overtake the advanced world economic and technological standards.

2. Improve the quality of industry as a whole and speed up the reorganization and transformation of the manufacturing industries. Continuing to strengthen the basic industries remains one of the important tasks of economic construction from now on. However, limited by resources, funds, and costs, it will be difficult for the basic industries to maintain the 8.5 percent average annual growth rate of the 10 years before 1988. At present, the manufacturing industries are characterized by their large-scale operations, low technological level, high consumption of raw materials and energy, and low efficiency, and it is unrealistic to rely on unlimited, high-speed expansion of the basic industries to meet the demands of the manufacturing industries. At the same time, the prices of products and fees charged by the basic industries, the prices of agricultural products used as raw materials, and wage costs are certainly going up, and the development of the manufacturing industries based on cheap energy, raw materials, and labor and an overheated market is history. And international competition is becoming more and more acute. Therefore, it is a principle of strategic significance to speed up the reorganization and transformation of the manufacturing industries, raise their technological standard, and alleviate their contradiction with the basic industries by reducing consumption and improving product quality and efficiency, thus stimulating the improvement of the quality of industry as a whole and accelerating the transformation of the industrial structure from an extensive type into an efficient type. Active plans should be made along these lines. First, to raise the technological and equipment standard, it is necessary first of all to pay attention to the basic of the basics, that is, to vigorously promote production of basic machines, replacement parts, and components, with the enactment of special

policies to insure success within a specified period of time. Second, it is necessary to reajust the product mix according to domestic and international market demands, and development should be directed toward new and high technology, advanced applied technology, and high added value to increase competitiveness. Third, it is necessary to improve the organizational structure of enterprises, actively carry out enterprise reorganization and association, and promote enterprise operations at an economical scale and specialization and cooperation; and it is necessary to gradually establish a bankruptcy mechanism and improve social security, labor markets, and so forth to create conditions for the rational circulation and optimum organization of the elements of production. Fourth, it is necessary to cultivate and strengthen our own ability in technological development and gradually reduce our technological dependence on foreign enterprises. Most of our technology imports are actually "buying modernization," a situation which must be changed. From now on, we should purchase more software on key technologies and so forth and actively participate in joint designing projects with foreign firms, but, more important, we must organize and coordinate efforts to tackle key problems, unite our planning and scientific research forces with the productive enterprises, and establish an effective competitive mechanism.

3. Speed up development of the tertiary industry. The development of the worldwide new technological revolution, particularly the rapid development of the electronic information technology and the information service trade, has given a strong impetus to the development of the tertiary industry and greatly enhanced the relation between the tertiary industry and the primary and secondary industries. The ability of the tertiary industry to serve production is now stronger than ever before. Because of its relatively low requirements for funds and equipment, but high economic returns, the tertiary industry has a great advantage and growth potential. In China, the tertiary industry constitutes a very small proportion of the national economy, and its development is uncoordinated with the development of the primary and secondary industries; there are still too few tertiary enterprises serving production and using new and high technology; and too many of the workers leaving the primary industry are moving into the secondary industry. This is one of the major causes of the present structural problems. Therefore, in order to increase the efficiency of the entire economic structure, provide greater convenience for the people, ease the problems of capital and employment, and develop a market system, it is extremely important and urgent to speed up the development of the tertiary industry. In the next 10 years, the tertiary industry should be developed at a faster rate than the primary and secondary industries. The tertiary industry is a broad field with many problems, and it is necessary to formulate practical and effective development plans and policies. The emphases in future development: in the traditional commerce and service trades, communications and transport services,

and the fields of science, education, culture, and public health, continued efforts should be made to establish and develop a socialized service system; in the newly developed and the relatively weak existing information, consultation, financial, insurance, and social security fields, while strengthening direct services to production and society, efforts should also be made to form a relatively complete and sound socialist market system. In the recent "Uruguay round" of GATT talks, the developed countries deliberately adopted an initial agreement on international service trade, which reveals their intention to infiltrate the field of tertiary industry in the developing countries. For this we must actively study questions on opening to the outside world concerning the tertiary industry and get prepared beforehand against infiltration by the developed Western countries.

4. The gist of industrial policies is to manage different kinds of industries in different ways according to the requirements of combining the planned economy with market regulation. First, a list of industries to receive major state support, a list of industries to be restricted from development, and an order of development should be determined and made public, and plans and policies should be made accordingly to direct social economic activities and give guidance to foreign investment. This is the basic form of China's current industrial policies, which should be readjusted and strengthened with the changing conditions of economic development. Second, as the reform continues to deepen, it is necessary to change step by step the principals in business operations (including principal investors), that is, to move the investment, production, and operation of most enterprises into the market. The state should reduce to the extent possible direct intervention in the operation of most industries which involve only ordinary, and short-term allocation of, resources and have no significant influence on the performance of the economic structure as a whole, and should help them mainly by providing policy guidance and creating a competitive environment for them to develop through competition. In the process, some duplication in construction is unavoidable, but, with guidance and competition, it will ultimately lead to greater concentration, spur technological progress, and bring quality products and efficient enterprises, while the losses will be relatively limited. The state should focus on supporting and managing the important industries, key enterprises, the infrastructure, and so forth, which concern the national strength, involve scarce, and long-term allocation of, resources, and have a rather significant influence on the performance of the economic structure as a whole. Thus, the state, having cast off the burden of the ordinary industries and enterprises, can concentrate on the larger picture and structure and avoid major policy mistakes and losses caused by duplication in construction.

5. Establish and perfect an industrial policy implementation mechanism. To be implemented, industrial policies, except those with direct implementation plans, rely mainly on various economic policies. Since the publication of the first industrial policy by the State Council in

March 1983, a number of supporting policies have been developed for its implementation, such as the introduction of a regulatory tax on the use of investment, policy guidance for foreign investment, the establishment of orders in which loans are granted by specialized banks, and so forth. Policies on investment, loans, taxes, prices, foreign trade, foreign exchange, and so forth should also coordinate more closely with the state's industrial policies and follow the same direction as the readjustment of the industrial structure. On control of investment in fixed assets, the practice of delegating authority to examine and approve investment projects purely on the basis of production capacity and amount of investment should be changed, and the authority to examine and approve capital construction and technological transformation projects should be readjusted according to the state's industrial policies (including economic scale standards). In the present stage, tax policies should also play a role in economic regulation and control, in addition to insuring collection of state revenues and creating conditions for fair competition among enterprises. In the past, economic policies were often determined on the basis of area, type of investment, time, and other considerations, which were not conducive to shaping a rational structure, and these policies should be revised and readjusted according to the principle that some industries should be given preferential treatment. Informational guidance is an important form of indirect regulation and control by industrial policies. Attention should be paid to developing information sources, information exchange and release systems, standards and standardization, and appropriate networks.

6. Reform the way budgeted investment funds are used and establish an investment system for policy purposes. With the increasing number of principal investors, the proportion of the state's budgeted investment to the total investment of the entire society is becoming smaller and smaller, currently just about 9 percent. Under the circumstance, the establishment of a system of investment for policy purposes—that is, except for a few construction projects which must be financed directly by the state, the state's budgeted investment funds will be turned mainly into an interest fund which, together with other policy funds, will be used to guide social investment as a whole—is a fundamental measure for achieving the goals of structural readjustment set by the state's industrial policies. At 10 percent interest rate, an interest fund of 30 billion yuan will control the direction of 300 billion yuan of investment, or most of the total investment by society as a whole. Fixed sources should be opened up for policy funds. On the basis of suitably increasing the state revenue in proportion to national income and the financial revenue of the central government in proportion to the state revenue and separating commercial finance from policy finance, the policy funds can be raised through many channels: 1) state capital construction funds, 2) regulatory tax on the use of investment and other special tax revenues, 3) special investment funds, 4) post office savings deposits, 5) social security funds, and 6) various construction bonds. Policy investments

should be included completely in the state plan. In the near future, policy investments can be managed by the state investment companies, special banks, and commercial banks in separate accounts. In the future, they should be managed by policy financial institutions to be established for this specific purpose.

7. Properly regionalize the industrial policies to avoid major structural imbalance and regional duplication. The regionalization of industrial policies is different from the regional economic (or industrial) development plans. A regional economic development plan is a complete plan made by each region for its own economic development according to its resources, favorable economic conditions, and position in the national economic development. These plans are more complicated and involve a lot of work, and the greatest problem is that it is difficult to strike an overall balance among all the regions of the country. Proceeding from the national geographical distribution of all industries, the purpose of the regionalization of industrial policies is, first, to determine the specific distribution of a number of important industries and large key projects; second, name the regions where each industry is permitted to develop respectively, allowing ordinary industries or key projects with no specified locations to choose from these regions according to construction conditions and availability of supporting facilities; and third, lay down clearly that certain industries are prohibited to develop or must stop development in certain regions. Thus, by settling the important overall geographical distribution of industries, it will be possible to prevent major duplication and structural imbalance, and most projects will also have a choice of regions, which will help bring greater investment returns and make overall balance and operational success easier to achieve.

8. While readjustment of the industrial structure and implementation of the industrial policies depend on deepening the reform, they also call for speeding up the in-depth reforms. To establish a planned commodity economic system, it is necessary to carry out three major reforms; namely, the reform of the enterprise mechanism, the cultivation of the market mechanism and market system, and the reform of macroeconomic management. The use of industrial policies to readjust the industrial structure is also closely related to these three major reforms. Fundamentally speaking, only by turning the enterprises into independently operated entities, responsible for their own profits and losses, accumulating their own funds, developing on their own efforts, and able to independently participate in market competition; forming a fairly complete market system which includes commodity markets and other essential markets and has sound rules for competition; and changing the present pattern of local governments assuming full responsibility for their own finances and establishing a financial system conducive to forming a unified national market and macroeconomic regulation; will it be possible to bring into full play the regulating, controlling,

and guiding role of the industrial policies and to give the industrial structure the power and vigor to constantly readjust itself.

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[Article by Wang Haibo (3076 3189 3134), edited by Lin Daojun (2651 6670 0689): "On Further Liberating Thought"]

[Text] The CPC Politburo meeting convened recently issued a call: "The comrades of the entire party, and especially leading cadres at all levels, must seriously study the series of important expositions by Comrade Deng Xiaoping on building socialism with Chinese characteristics, to further raise their consciousness in respect of implementing, in an overall way, the basic line of the party." "It is necessary to further liberate thought and uphold seeking truth from facts." "It is necessary to speed the pace of reform and opening up" and "to push economic construction forward." (Footnote 1—RENMIN RIBAO 2 March 1992) I have come to understand that further liberating thought, speeding the pace of reform, and opening up and pushing the economy forward is an extremely important question in implementing the basic line of the party in an overall way at present.

I. Correct Summation of Historical Experience

Generally speaking, there can be no revolutionary movement without a revolutionary theory. The relationship between theory and practice in economic reform and economic development is also like this. If at present we are to speed the pace of reform and opening up and push the economy forward, it is also necessary to further liberate ourselves from the fetters of the various types of erroneous thinking and further switch the practice of reform and development to the correct ideological line re-established by the Third Plenary Session of the 11th CPC Central Committee. This point is a primary scientific summation of the experiences of history.

In the early period after the establishment of the PRC, a traditional economic system was established. This had an historical inevitability and played an important positive role in the revival of our country's economy and in industrialization. However, the serious defects of this system had been clearly revealed by the the first half of the 1950's. Thus, in 1956, the central authorities put forward a plan for reforms of the industrial management system and these reforms were implemented on two occasions, in 1958 and 1970. However, these reforms were conducted under the guidance of the traditional product economy theory and were limited to the reform ideas of administrative division of power, the handing down of power, and allowing the retention of some profits. These measures did not touch on the basic

question which needed to be resolved—the establishment of a planned commodity economy. This essentially determined that these two reforms eventually failed and they were major factors which twice exacerbated economic imbalances.

However, after the Third Plenary Session of the 11th CPC Central Committee, under the guidance of the idea of “liberating thought, seeking truth from facts, and looking to the future united” put forward by Comrade Deng Xiaoping, a series of breakthroughs were realized on the theoretical level. The most basic breakthrough was that the theories of socialism with Chinese characteristics, the primary stage of socialism, and a socialist planned commodity economy were gradually put forward. These correct trains of thought in reform basically determined the success of our country’s economic structural reform. According to estimates by relevant experts, at present, only about one-third of GNP is produced by socialist state-owned enterprises, while about two-thirds is produced by nonstate-owned enterprises (including socialist collective enterprises, individual enterprises, private enterprises, and the three types of enterprises which are partly or wholly foreign-owned). The nonstate-owned enterprises are all commodity producers while, generally speaking, the state-owned enterprises are to differing degrees going through a process of change from being appendages of administrative organs to being commodity producers. According to estimates by the author, in 1990, of the total volume of ex-factory prices of industrial means of production, the prices of agricultural products sold by peasants and retail sales prices of social commodities, only one-third were subject to state price controls, while the other two-thirds were guided by the state or were subject to regulation through market mechanism. (Footnote 2—*Statistical Yearbook of China (1991)* pp 20, 25; RENMIN RIBAO 30 October 1991, p 5) These figures reflect, in a centralized way, that our country’s traditional structure has already undergone deep-going changes and that major progress has been achieved along the road of developing a planned commodity economy. The progress of economic reform has already greatly promoted raising our country’s social productive forces, comprehensive national strength, and the standard of living of the people. If we calculate in terms of comparable prices, from 1978 to 1990, GNP saw an average annual growth of 8.8 percent, clearly higher than the 6.1 percent achieved from 1953 to 1978. The average level of consumption of residents, if we exclude price rise factors, saw an average annual growth of 6.5 percent, much higher than the 2.2 percent seen over the period from 1953 to 1978. (Footnote 3—RENMIN SHIBAO 27 Feb 1991, p 3) According to calculations by relevant experts, our country’s comprehensive national strength, in terms of its ranking among major countries of the world, rose over the period 1949 to 1980 from 13th position to eighth position and in 1990, it rose again to sixth position. (Footnote 4—RENMIN RIBAO 26 Feb 1990, p 2) It can be seen that although our country’s reforms have not been completed, and many problems still exist in reform and

development, liberating our thought and establishing a correct guiding ideology to promote reform and development has been proven by historical experience to be correct.

II. Application and Development of Historical Materialism

According to Comrade Deng Xiaoping’s idea, “liberating thought... is seeking truth from facts.” “Only if ideology is liberated... will we be able to correctly decide on relations of production and a superstructure which accords with the swift development of the productive forces,” “and only in this way will it be possible to carry out modernization smoothly.” After the basic system of socialism is established, it is necessary to essentially change the economic structure which fetters the development of the productive forces and establish a socialist economic system full of vigor and life, and to promote the development of the productive forces. If at present we do not implement reform, our cause of modernization and socialism will be ruined. Reform is the only avenue by which our country can develop the productive forces. (Footnote 5—*Selected Works of Deng Xiaoping (1975-82)* People’s Publishing House, 1983 edition (same below), pp 131, 133, 323; *Comrade Deng Xiaoping on Reform and Opening Up*, People’s Publishing House, 1989 edition, pp 9, 95) We must not only develop the productive forces under socialist conditions but also liberate the productive forces through reform. I have learned that these ideas are the application and development of the basic principles of historical materialism (including the principles governing the mutual relations between the productive forces and the relations of production and between the economic base and the superstructure).

First, as far as ideology as a major component part of the superstructure and its relationship with the economic base and the productive forces are concerned, this development can be summed up in the following four points: 1) It has summed up liberating thought as “seeking truth from facts,” that is, the “basis of the world view of the proletariat” and “the ideological basis of Marxism-Leninism.” 2) Liberating thought is seen as a precondition for the smooth development of the theory of Marxism-Leninism-Mao Zedong Thought. 3) It seeks the liberation of thought as guidance for truly reforming the traditional structure and for liberating and developing the productive forces. 4) It not only considers practice to be the sole criterion of truth (Footnote 6—*Selected Works of Deng Xiaoping (1975-82)* pp 131-133) but also considers that in assessing whether something is socialist or capitalist, one should mainly look at whether or not it is beneficial to: Developing the productive forces in socialist society; to strengthening the comprehensive strength of a socialist country; and whether or not it is beneficial to raising the standard of living of the people.

Second, in terms of the relationship between the relations of production and the productive forces, the development can be summed up in the following areas: 1) The

basic systems of the socialist relations of production (such as public ownership of the means of production, distribution according to work, realizing common prosperity, eliminating exploitation and oppression, and so on) and their forms of manifestation (such as economic structures) have been differentiated. 2) The decisive role of the social productive forces on socialist relations of production lies in two aspects; they play a decisive role in respect of both the basic system and the economic structure of the relations of production. 3) The socialist relations of production also have two aspects in terms of the role they play in promoting or obstructing the productive forces. That is to say, both the basic economic system and the economic structure play a role in promoting or obstructing the productive forces. 4) The basic economic system and the economic structure of socialism are mutually linked. On the one hand, the former determines the latter and the latter is the form of realization of the former. In another respect, the bringing into play of the superiority of the former is to a great degree determined by whether or not the latter is suited to the productive forces. Not only that but, seen from the present situation, if we do not engage in reform of the traditional structure, consolidation of the basic economic system of socialism will become a problem.

Thus, the liberation of thought spoken of here has a clear characteristic of the times. It is not only on the general level that it is essentially different, in terms of the nature of the social stage, from the "liberation of thought" carried out during the revolutionary age of the bourgeoisie, but specifically different on the level of principle from the "liberation of thought" put forward in 1958 at the beginning of the Great Leap Forward. The "liberation of thought" put forward during the Great Leap Forward also had as its point of departure exploring the specific road by which China was to build socialism and reflected the urgent hopes of the masses that pressingly demanded that our country's backward economic and cultural situation be changed. However, the practice engaged in under this slogan went against economic principles and seriously harmed the productive forces. The slogan put forward by Comrade Deng Xiaoping has, as its pith, seeking truth from facts, and has as its aim and yardstick the liberation and development of the social productive forces. This is a sign that it has the basic characteristics of historical materialism. If we ignore this point, we will be losing its spirit.

In brief, further liberating thought to accelerate the pace of reform and opening up and pushing the economy forward is the correct application and development of historical materialism.

III. Pressing Need To Realize Socialist Modernization

Further liberating thought and promoting reform and development is a pressing need in realizing socialist modernization. This is closely linked with the following four situations:

1. At present, accelerating reform and promoting development has especially important significance. As far as development is concerned in general, developing the productive forces is the basic task of socialism. Specifically, realizing the second- and third-step strategic tasks of economic development in our country directly depends upon developing the social productive forces. This is the first point. Second, if the socialist system is to be thoroughly victorious over the capitalist system, it must rely on "socialism producing new and much higher rates of productivity." (Footnote 7—Lenin, "A Great Beginning," *Selected Works of Lenin* Vol 4, p 16) The 70-plus years of experience since the victory in the Russian socialist October Revolution prove that in the long process of realizing "thorough victory," if the productive forces of socialist countries see rapid development, not only will the socialist country, which has already achieved victory, be able to achieve consolidation and strengthening but it will also be possible to continue achieving breakthroughs in the battle against capitalism. For example, the establishment of a series of socialist states in Europe and Asia after World War II is an example of such a situation. Conversely, if the productive forces of socialist countries cannot be developed quite swiftly, this will be a major element in the success of the "peaceful evolution" policy being pursued by international hostile forces. The great changes which have occurred in East Europe and the Soviet Union in recent years are examples of this situation. After these great changes occurred, the hostile international forces stepped up waging the policy of "peaceful evolution" against our country. Thus, under the precondition of upholding the four cardinal principles, centralizing strengths to push the economy forward is clearly important. Also, at a time when science and technology have become the primary productive forces, if we are unable to achieve swift economic development, not only will the gap between ourselves and economically developed countries grow wider but the disparity between ourselves and newly industrialized countries and regions (such as the four small dragons of Asia), and between ourselves and those who are now entering the ranks of the newly industrialized countries (such as Malaysia, the Philippines, Indonesia, and Thailand), will also grow greater, putting our country in a disadvantageous position among international economic competition. Third, advancing economic structural reform, achieving long-term economic stability, and smoothly realizing the great concept of "one country, two systems," all rely on economic development to provide a rich material base.

The abovementioned aspects determine that economic development has great importance. The most basic avenue by which to realize these tasks is in furthering the reform of the economic structure. However, the situation whereby the old and the new structures coexist means not only are we unable to effectively overcome the defects of the old structure but we are also restricted in bringing into play the superiorities of the new structure.

In this way, some of the original deep-level contradictions in economic life (such as dislocation of the industrial structure, regional structural convergence, technical backwardness, enterprise organizations being large and complete or small but complete, equipment being outdated, and economic performance declining) not only cannot be basically resolved but, in some cases, are further exacerbated. At the same time, if we do not change the situation of sluggishness in reform of the state-owned enterprises, the leading position of the state-owned economy will be threatened, becoming a disadvantage in upholding socialist principles.

2. At present, there is vast potential for both reform and development. One prominent manifestation of this is the imbalance in progress of reform in various regions, as well as the disparities in economic development it brings. (See Table 1)

Table 1

Comparison of Guangdong, National, and Shanghai Rates of Growth of National Economic Indexes

(Unit: percent)			
Year	Gross National Product		
	National	Guangdong	Shanghai
1988	[no figures as published]		
1989	103.6	107.0	103.0
Year	National Income		
	National	Guangdong	Shanghai
1988	111.0	112.1	107.0
1989	103.3	106.6	103.1
1990	104.8	110.2	102.8
Year	Gross Social Output Value		
	National	Guangdong	Shanghai
1988	115.8	121.9	107.0
1989	105.2	111.9	103.1
1990	106.5	113.9	103.6

Data Sources: *Statistical Yearbook of China (1989)*, pp 34, 49; *Statistical Yearbook of China (1990)*, p 38; *Statistical Yearbook of China (1991)*, p 36

The figures in Table 1 show: 1) In 1988, which saw a peak in economic growth, Guangdong's economic growth was higher than both the national figure and that for Shanghai. 2) In 1989, which saw a drop in growth, the drop in Guangdong's economic growth was lower than that for the country as a whole and that seen in Shanghai. 3) In 1990, which saw an economic revival, the revival in Guangdong's economic growth was greater than that of the country as a whole. The revival in Shanghai's GNP and gross social output value were very small, while its national income growth continued to decline. However, when we look at Shanghai and Guangdong, there are many factors which cannot be compared. For example, since the beginning of the reforms the financial burdens borne by the Shanghai financial administration have

been heavier than those of Guangdong. They both have their own advantageous and disadvantageous conditions but, overall, Shanghai has the advantage over Guangdong. However, the economic growth rate of Shanghai was far lower than that of Guangdong. Clearly, a very basic reason for this was that Guangdong implemented reform and opening up first, while Shanghai's reform and opening up lagged behind. As to the great disparity between the economic growth figures for the whole country and for Guangdong, in general this is due to the same factors. This example shows that in our country's reform and development there lies great potential.

3. Although in our country's reform and development at present many problems exist, there are also many advantageous conditions. The main ones are: Through over 10 years of reform and development, there have been very great improvements in our country's social productive forces, comprehensive national strength, and the level of people's livelihood; overall economic volumes have achieved an initial balance; there is social and economic stability; there has been a marked improvement in the capacity of the enterprises and the masses to bear the reforms; the reforms have the people's strong support; the new economic structure already occupies a very large proportion in economic life; and, in particular, the theory and line of building socialism with Chinese characteristics has seen very great development and the reform and development policies are now being perfected. All these aspects create beneficial conditions on the material, economic, and political levels, among the masses and in terms of theory, line, and policies for speeding reform and promoting development.

4. If we are to effectively use these various beneficial conditions, fully bring into play the various potentials noted above, and speed reform and promote development, an extremely important element at present which cannot be overlooked is that we must further liberate our thought. The problem is that, although we have already established the goals and blueprints for economic structural reform and the various specific policies are being perfected, there are still many realms of necessity in this area. Deepening reform requires changing these realms of necessity into realms of choice. Further, as the reforms proceed deeper the problems encountered become more complex and difficult. The great amount of friction produced by the coexistence of the old and the new systems also exacerbates this situation. These problems require that people further set their brains to work and, in a way which seeks truth from facts, explore and resolve problems. In another respect, as soon as the reforms began, they experienced contradictions with the traditional structure and value concepts, the egalitarianism of the natural economy and the small-scale producers, and bourgeois ideological influences. These contradictions clearly cannot be completely resolved within a short period of time. Further, following the deepening of reform, some of these aspects could become more acute. After smashing the "Gang of Four," we realized major successes in eliminating "Leftist" mistakes

(including "Leftist" doctrinairism), but in various respects and to various degrees there also appeared the problem of one deviation obscuring another. A manifestation of this was the copying of some theories of Western bourgeois scholars which were not suited to our national conditions (and in particular, were not suited to the socialist system). This assisted the ideological tide of bourgeois liberalization which spread for a time. This copying can be seen as a type of rightist doctrinairism. After the political disturbance in 1989, undoubtedly there was a need to stress the exposure of the "peaceful evolution" policy being pursued by hostile international forces and to place stress on criticizing the ideological tide of bourgeois liberalization. However, again in various respects and to varying degrees, there appeared the situation where one deviation covered up another. This resulted in Leftist doctrinairism again raising its head. Both of these aspects can fetter our brains and obstruct people who are trying to explain and resolve problems in reform and development in a way which seeks truth from facts. Thus, if we are to speed reform and promote development, we must further liberate our thought and free ourselves from the restraints of the various erroneous ideologies. However, in accordance with the spirit of "being vigilant against rightism but mainly guarding against 'Leftism'" put forward by the plenary session of the CPC Political Bureau, we must mainly free ourselves from the ideological influence of "Leftism." I intend to devote another article to discussing this question.

Article on Survey of Enterprise Management

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[Article by Zheng Hongliang (6774 4767 0081) from Economic Research Institute of the Chinese Academy of Social Sciences: "Behavior of State Enterprises in the Course of Reform—Analysis of Questionnaire Submitted by Directors (Managers) of 769 State Industrial Enterprises"]

[Text] This article is the achievement of the key project "State Enterprise Reform and Efficiency" jointly sponsored by the State Social Science Fund and the Ford Fund. Dong Fureng and Tang Zongkun are chairmen of the project. The questionnaires were given to 769 enterprises belonging to the second stage of the project. The sample survey, involving 35 trades, was conducted in Jilin, Jiangsu, Shanxi, and Sichuan Provinces. In addition, we express our thanks to Comrades Fan Gang and Guo Jingang for their valuable opinions given during the revision of this article.

The objective of China's state enterprise reform is to enable state enterprises to become independent commodity producers and operators carrying out independent operation and assuming sole responsibility for their profit and loss. How has this objective been realized to date? This article attempts to give an answer to this question based on theoretical summarization by analyzing relevant figures obtained from questionnaires

given to directors (managers) of 769 state industrial enterprises and by observing the tendency and characteristics of the behavior of China's state enterprises in the course of reform from a positive angle.

I. Behavior of State Enterprises in Market Competition: Tendency To Make Maximum Profits

1. Behavior of market adaptability: Weighing the advantages and disadvantages of reducing production and cutting prices.

Under the traditional system, China's state enterprises simply implemented the state's production orders and price provisions. There was no market behavior, a reaction made directly to the market. Since reform, tremendous changes have taken place and market supply and demand has become an essential decisive factor influencing enterprise behavior. For example, the questionnaire asked how would an enterprise make a short-term reaction when the supply of its products exceeded demand. Around 80 percent of the enterprises insisted on cutting prices or reducing production rather than waiting passively or not making any reaction. On the option of cutting prices and reducing production, most of the enterprises preferred cutting prices to reducing production. Why were they unwilling to reduce production? There are four reasons, which can be arranged in order of importance (Footnote 1—The extent of importance mentioned in this article refers to the proportion of enterprises giving answers of "important" and "very important" to the problems in the questionnaire in all the enterprises surveyed; the greater proportion indicates a greater level of importance): 1) A reduction in production will affect fulfillment of the production quotas—61.3 percent; 2) the loss from reducing production will exceed that from price cutting—72 percent; 3) the market is likely to recover—61.3 percent; and 4) a reduction in production will affect employment—52.5 percent. We can see from this data that: 1) In the market-oriented reform, state enterprises have markedly increased their awareness of using the price lever and have also enhanced their concept of economic accounting. That is, in whatever market reaction measure taken, it is necessary to take its economic rationality into account. 2) Enterprises still pay great attention to fulfillment of the plan. Apart from the state's direct mandatory planning, the plan is to a great extent determined by the quotas which must be fulfilled in light of the contract. If production is reduced, it will be difficult to fulfil the contract, particularly the quotas to be delivered to the state and the welfare benefits promised to staff members. This state of affairs makes enterprises conservative. They are not willing to take the risk of undergoing major surgery which might be advantageous to the enterprises. Probably, this is an important microbehavior for the difficulties China's state enterprises are now beset with in industrial structural readjustment. 3) Thanks to uncertainty of the possible market recovery, enterprises are not willing to hastily reduce production because they have a strong sense of market orientation. This also shows that China's state

enterprises have lived in a macroenvironment for a long time where market demand exceeds supply, so they place too much hope on a quick market recovery. Meanwhile, the changeability of China's macroenvironment has also increased difficulties for enterprises in predicting the market.

2. Behavior of policy decisions on ex-budgetary production: Paying attention to market forecasts and maximum profits.

We know that a decision made on products is a very important aspect in the operations and policy decisions of an enterprise. The drafting of a production plan is a concrete action of a decision on products. Under the double track system where planning and market coexist, an observation of how enterprises determine production of market products or ex-budgetary production will be conducive to understanding the product decisionmaking behavior of enterprises in the environment of market competition. Viewed from the questionnaire, enterprises focus their attention on the following factors while deciding on production not included in the plan. The order of importance is as follows: Market forecast, 95.5 percent; maximum profits, 84.1 percent; orders in hand, 82.9 percent; and average sales volume in the past, 39.2 percent. We can at least realize the following points from the sequence: 1) While making decisions on products not included in the plan, the market-oriented behavior of state enterprises is quite apparent. Because of the changeability and uncertainty of market demand, enterprises pay great attention to market forecast work and regard it as the primary basis for deciding on production not included in the plan. 2) Enterprises have adapted themselves to market changes and are capable of undertaking market risks. Comparatively speaking, enterprises pay more attention to market forecast than to their orders in hand. 3) Maximizing profits has become an important target pursued by enterprises. This is placed behind "market forecast" because its direct relationship to the decisions on ex-budgetary production is secondary to market forecast. Here, market forecast is still the most important way for enterprises to maximize their profits. 4) The average sales volume of the past is a figure from experience, which merely indicates what happened in the past rather than what will happen in the future. In the new market-oriented environment, its importance is weakened. This shows that most of the enterprises do not accept the practice of handling work simply in light of experience.

3. Price setting behavior: Seeking steady and good profits.

Enterprises independently determining the prices of products is an important manifestation of the extension of their decisionmaking power. Undoubtedly, many enterprises have more or less obtained the right to determine the prices of a considerable number of products. The exercise of such powers and rights can accurately reflect certain behavioral orientations. Viewed from the questionnaire, the greatest influence on product

prices determined by enterprises is first, production cost, then the situation of market supply and demand, and then the state's market prices. This seems to indicate: 1) Production cost, which plays a direct restrictive role on prices set by enterprises, is the hardest restraining part. It shows that the method of cost plus price, namely, "cost plus moderate profit," is similar to the behavior of the monopolized competition enterprises of the Western countries. (Footnote 2—C. K. Wilber and K. P. Jameson "An Enquiry Into the Poverty of Economics," University of Notre Dame Press, p 191) 2) The influence of market supply and demand on the setting of prices is exerted under the conditions of restrained production cost, that is, sales at low price should be based on compensating cost and obtaining steady profits. Unless necessary, the products are generally not sold at prices lower than the cost. 3) The state's planned price is generally lower than the market price. However, during the special period of a slump market and market readjustment, the planned price may be higher than the market price. While determining prices, the enterprise behavior is apparently to make a choice in light of the actual situation, that is, with the planned price as the parameter and setting the prices higher or lower than the planned price but seldom equal to it. This actually means that enterprises will make use of the flexibility of prices and planned products to carry out competition and make good profits. The above points show that the profit orientation manifested in the behavior of prices set by enterprises is one of making maximum profits on a steady and moderate basis.

4. Sales behavior: Making small profits but quick turnover to extend the scope of the market.

When asked about the reason for the price of products sold by enterprises being lower than market price, 51.2 percent of the enterprises attributed it to the expansion of the scope of the market; 43.7 percent attributed it to the restrictions imposed by the higher level or local price departments; and only 5.1 percent believed that it was due to the low cost of production or for the sake of exchanging raw materials and energy which are in short supply. This set of figures shows: 1) As the prices of products sold by enterprises through market regulation are still restricted by the government departments in one way or the other, enterprises cannot completely act according to market principles. Undoubtedly, this constitutes a violation of the market track. 2) When there is no restriction imposed by the government departments on prices, enterprises show their strong inclination toward market competition, of which price competition constitutes the most important means. To increase the scope of their products in the market, enterprises are willing to finish the transactions at a low price, indicating their flexibility and willingness to make small profits but have quick turnover. 3) When the market slumps and supply of sought after materials has improved, barter trade behavior in enterprises will be weakened and they will be further inclined toward the market.

5. Enterprise investment behavior in lateral ties: Giving full play to advantages and making the maximum profits.

It is a new emerging thing since reform and opening up, and also an important manifestation of enhanced market-orientation in reform, to invest funds in other enterprises and make profits through cooperation. We realize from the questionnaire: During the period from 1982 to 1989, over one-third of the enterprises surveyed had, to varying degrees, invested in other enterprises. What was their motive? The primary answer was making maximum profits, which accounted for 71.6 percent; the second was increasing the capacity for producing famous brand products, 63.7 percent; the third, seeking cooperation with other enterprises, 60.1 percent; and the last, establishing raw material and energy bases and promoting sales, 51.3 percent and 45.2 percent, respectively. These figures show: 1) In the new form of lateral ties between enterprises, the direct role of state planning is replaced by the role of market orientation and the purpose of enterprise investment is to seek maximum profits. 2) Enterprise investment behavior is more inclined to giving full play to the advantages of famous brand quality goods in the lateral ties so as to increase their influence and make more profits. 3) Through investment and cooperation, many enterprises want to use the advantages of others to make up their deficiencies. 4) The nonmarket means of establishing raw material and energy bases and promoting sales are no longer pursued by enterprises because the means of market exchange can basically resolve these problems more economically. Naturally, the questionnaire was made when the market was in a slump and the shortages of raw materials and energy were eased somewhat. Undoubtedly, this has diminished the factor of the government's administrative interference in enterprise investment in lateral ties. While having overall control over enterprise investment behavior, we should be aware of this point.

II. Behavior of State Enterprises Under Government Interference: Moderate Profits and Maximized Interests

Interference by government departments is an important factor affecting the behavior of state enterprises. Despite the progress of reform and gradual extension of the decisionmaking powers of enterprises, there is still great control (referring mainly to direct control) of the government departments over enterprises. For example, of the total output value of the enterprises surveyed, the proportion of the output value in direct state planning accounted for 93.5 percent in 1984 and declined in later years. However, the extent of the decline was small and the proportion still accounted for 56.4 percent in 1989. Against the background whereby profit orientation has taken shape and government interference is intense yet unsteady, enterprises have manifested a complicated, dual behavior: They should take market environment as well as government intentions into account. Nevertheless, there are indications that a new mechanism which is not totally related to the market or administration has taken shape. It is the interest oriented mechanism, in

which enterprises take "interests" into account despite the pressure from market competition or restrictions from government interference. Naturally, the results of such interests may vary because of different timing, local conditions, and forces (balance of forces between the two sides), which require concrete analysis.

1. Signing of contracts: Low contract target.

Regarding state enterprises implementing the contract system, the first step in dealing with the government is signing contracts. Although the government departments occupy a favorable position in the signing of contracts, enterprises, for the sake of their own interests, will try by every means to influence the targets set in the contracts by the higher authorities. Viewed from the questionnaire, of the various methods, fulfillment of the profit and tax target occupies a primary position, accounting for 91.4 percent; second, improving management and operation, 88.2 percent; third, creating famous brand quality products, 78.6 percent; and, lastly, ensuring sales of a certain proportion of goods to the state at planned prices, 37.7 percent. These figures seem to prove that there is a certain substitutional relationship between a great deal of so-called enterprise behavior catering to the likes of government departments and the target contracted by enterprises. In other words, an increase in the former may decrease the latter and the decrease will eventually be manifested in an increase in interests of enterprises and operators. For example, enterprises believe that fulfillment of the profit and tax target, which plays a great influential role in contract targets set by the government departments, reflect their loyalty to the government departments. The higher the extent of fulfillment, the higher the degree of loyalty. As both sides can maintain good relationships, enterprises can get the preferential treatment of lowering the contract targets. Take another example. It is rather difficult to identify improvement in operation and management. As the government has consistently stressed this point, enterprises will obtain preferential treatment as long as they make some kind of commitment. As to famous brand quality products, they are easily identified. Under the irrational price system where good quality products could not be sold at a good price, however, it is quite reasonable to give preferential treatment in the contract. On the whole, the contract method of such elastic, nonstandardized, and reciprocal talks is conducive to fostering long-term behavior by enterprises because, in the predetermined environment of three to four years, the manifested interest orientation can only be short-term. Furthermore, such bargaining behavior will appear to varying degrees in the course of implementing and enforcing the contracts.

2. Obtain the essential production factors within the plan: Try as much as possible to get more preferential treatment.

Let us first look from the raw materials obtained. The order of importance of the various means adopted by

enterprises to influence the higher levels to get preferential supplies of raw materials is: Creating famous brand quality products, 75.4 percent; improving operation and management, 75.2 percent; assuring fulfillment of the profit and taxation target, 73.2 percent; and ensuring selling a certain proportion of products to the state at planned prices, 49.3 percent. One of the marked characteristics of these figures is that the importance of ensuring sales of a certain proportion of products to the state at planned prices is apparently enhanced, indicating that planned supply has an important corresponding relation with planned marketing but not with the setting of contract targets. The reason probably lies in the fact that the contract targets are comprehensive quotas, in which the single quota like planned marketing cannot be directly reflected. Probably such an ambiguous corresponding relation has increased room for enterprises to bargain with the governments on the contract targets. Let us now look from the obtaining of capital angle. The importance attached by enterprises to various means is similar to the practice of "influencing the contract target set by the higher levels" mentioned previously because the rate of fulfillment of the profit and tax target goes first, accounting for 86.6 percent; improvement in operation and management ranks second, accounting for 83.6 percent; and creating famous brand quality products is third, accounting for 80.1 percent. The reason for such a state of affairs probably lies in the following: Regarding the competent departments, the behavioral consequences of offering loans and setting the different contract quotas are more uncertain than the behavioral consequences of the supply of raw materials at preferential prices. The risks are also greater. For this reason, the competent departments are more concerned about the promises made by enterprises in fulfilling the profit and tax targets. To cater for the likes of the competent departments, enterprises will make promises. As to whether the targets can be fulfilled, that is another story. This further reflects the following fact: Bargaining between enterprises and the government is intense not only during the signing of the contracts but also during the implementation of the contracts whose binding force has been rigid, resulting in a softening of the binding force of the contracts and weakening their role.

3. Listing investment projects in the plan: Striving for a greater share in the planning.

The proportion of planned prices in enterprise investment has continuously dropped since reform but still accounts for approximately one-third. Undoubtedly, this will make the investment cost lower than the market price. In addition, there are other factors, such as enterprises will not have to bear the ultimate responsibility of efficiency for the investment; they can enjoy preferential terms in loans as well as payment; and an increase in investment can upgrade the administrative level of enterprises. All this has increased the desire of enterprises for investment. Their needs are not fully met because of the limited amount of funds mustered by

themselves, bank control over loans, and restrictions imposed by the competent departments. Take the surveyed enterprises for example. Of the applications for investment projects they submitted to the higher levels from 1987 to 1988, only 71 percent were finally approved. We can draw the following inference from this: In the investment activities, the principal point of the means of enterprise behavior is to strive for the listing of investment projects to obtain a greater share and advantages in planning. What means will enterprises adopt to influence the higher level competent departments to approve the listing of their investment projects? Viewed from the questionnaire, ensuring fulfillment of the profit and tax target goes first, accounting for 91.6 percent; creating famous brand quality products comes second, 90.1 percent; improving operation and management is third, 83.5 percent; and foreign exchange earning from exports is fourth, with 80.9 percent. These figures show that: 1) Regarding the higher level competent departments, the behavioral consequence of approving enterprise investment project is uncertain. Therefore, they are particularly concerned about the profit and tax targets fulfilled by enterprises. Conversely, improving operation and management is a rather abstract soft target. Although it must be emphasized as a general requirement, subjective impressions of the improvement will be unavoidable, which increases the techniques in bargaining. 2) Creating famous brand quality products exerts a great influence on the listing of investment and on offering support in loans. 3) The importance of the means of increasing foreign exchange earning through exports has apparently increased the listing of investment projects. It shows that under the big environment of opening up, the competent departments are inclined toward earning more foreign exchange. It is a pity that the number of enterprises which can earn foreign exchange accounts for a very small proportion of the total and still less are those enterprises which can earn foreign exchange at low cost.

4. Production of losing products: Difficulties in a job which are hard to mention.

Production of losing products, which is a rare phenomenon in a market economic environment, has existed for a long time in state enterprises. Of the enterprises surveyed, 647 were manufacturing losing products, accounting for 84 percent of the total. The output value of their products accounted for an average of 14.6 percent of the total value of their products. What is the root cause of this state of affairs and what are the views of these enterprises? We can see from the questionnaire: Those attributing the manufacture of losing products to redundant personnel accounted for 62.4 percent; those attributing it to the mandatory plans of the higher levels, 48.3 percent; those attributing it to lack of technology, 45.8 percent; and those attributing it to state subsidy, 31.6 percent. We can judge from this point that enterprises are no longer willing to manufacture losing products as they did under the traditional system of the past. They have done so because of pressure from both within

and without. When they have no alternative, they are not specially against such production because, after all, the government will offer a considerable amount of subsidy and will solve the practical problem of employment. Moreover, instead of becoming the "quick ox" whipped and spurred on, they can lead a peaceful life under the protective umbrella of the policy-related deficits.

5. Difficulties in repaying loans: The chain of rings which they can never get rid of.

Viewed from the questionnaire which is 93 percent effective, 6 percent of the enterprises believed that when they had difficulties in repaying loans, help offered by the higher levels was enormous; 28.6 percent believed the help was big; 30.6 percent believed that the help was useless; and 13.8 percent believed there was no help at all. The former three, accounting for 65.2 percent, can be classified to the category of help while the latter two, accounting for 34.8 percent, can be classified to the category of no help. On the whole, help offered by the higher authorities was apparent. The means of help included: Extending the repayment period, accounting for 32 percent; offering new credit to repay the old one, 22.3 percent; new financial subsidies from the bank, 1.7 percent; reducing debts, 1.8 percent; and allowing repayment with pre-tax profits, 34.2 percent. Viewing these figures, the functions of banks are separated from those of the finance. As the banks are operated by the state, their independence and decisionmaking powers are relative. If the state holds that certain preference should be given to an enterprise, the bank must follow. For this reason, extension of repayment and granting of new loans to repay old ones have become an essential means adopted by the government to help enterprises solve their difficulties in repaying the loans. Moreover, the abovementioned preferential terms offered by the government to enterprises objectively reflect the fact that state enterprises universally lack the ability to develop themselves. Similar to the problem of "debt chains" which have troubled enterprises over the years, enterprises and the government are involved in another chain of rings which they cannot undo: Because of the limited retention of profits, enterprises have to ask for more loans; when they face a vicious cycle after granting loans, they have no way out but to beg for support from the government; the preferential treatment offered by the government to enterprises is again recalled, resulting in the limited retention of profits; and so on and so forth, moving in endless cycles. This can be regarded as a typical manifestation of the relations between China's state enterprises and the government departments since reform, particularly since 1985. It indicates the delicate position of enterprises under the dual restrictions of the market and the government.

III. Behavior of State Enterprises From the Voice of Staff Members and Workers: Maximizing Per Capita Welfare Benefits

1. Dual identity of staff members and workers in state enterprises: Enterprise masters and ordinary laborers.

As a member of the public ownership system, staff members and workers in the state enterprises seem to be natural masters of the enterprises. Meanwhile, because of the limitation of social division of work and of the requirements of socialized mass production, these staff members and workers can only serve as ordinary laborers engaging in labor at different posts in the enterprise. They must accept orders and transfers made by the enterprise manager, who has been entrusted to take charge of the public property. This dual identity determines the complicated relations between workers in state enterprises and the manager. One of the essential expressions of this complexity in China at the current stage is: As masters, workers seem to naturally enjoy the right to employment in the enterprise so they generally cannot be fired. As ordinary laborers, their labor is only a means for seeking a living so it is necessary to stress labor reward and other interests. The results of the questionnaire proved the following point: Of the 644 enterprises which submitted effective answers, the actual number of workers accounted for an average of 107 percent of the number of workers required, the highest reaching 400 percent, which created difficulties in reducing the staff. Enterprise workers paid great attention to the issue of wages and bonuses, housing distribution, promotion, employment of their children, and other material benefits. However, little attention was paid to the responsibility they should have undertaken. This shows that under the current system, interests and powers of the workers in state enterprises do not balance respectively with the risks and responsibility. This imbalance has, to a great extent, led to deviations in enterprise behavior.

2. The special status of factory director (manager): Undertaking numerous duties.

The structural environment of factory director (manager) of state enterprises determines his special status in assuming numerous duties: As a manager entrusted to take care of state property, he must represent the interests of the state or relevant government departments; as the legal person of the state enterprise, he must represent the interests of the enterprise; and as a leader and commander in charge of production and operation of a state enterprise, he must always take the interests of the enterprise staff members and workers into account. How to maintain a balance between the relations of these interests? It seems there is not yet an effective method. Although there are examples of enterprise representatives properly handling these relations, the general trend is that interests are leaning toward workers. Naturally, when the government stresses state interests and adopts relevant measures, revenue may be ensured even when the enterprise's economic efficiency has declined. As a result, enterprise interests are seriously affected. The situation of big at both ends and small in the middle in the distribution of state enterprises in recent years can prove this point. The reason for this state of affairs probably lies in the fact that the factory directors (managers) who represent state operators are appointed or

approved by the government. Of the enterprises surveyed, 77 percent of the factory directors (managers) were appointed by the government, 5 percent were elected by the workers' congresses, 14 percent were elected through public bidding, 2 percent were assigned through contracts, and 2 percent were elected or assigned through other means. Thus it can be seen, that government departments play a great role in this regard. Why, then, has distribution of interests between the state and workers leaned more toward the latter? The reason is complicated. The basic point probably lies in the following fact: To enterprise operators, the interests of the state are not so concrete and direct as workers' personal interests. Moreover, the government departments, as the representatives of state interests, are outside the enterprises and their role and supervision is external. Therefore, the effects are bound to be limited. This forms a sharp contrast to the situation abroad where state enterprises link their interests with that of the state through the system of board of directors. (Footnote 3 See article "A Study of the Management System and Efficiency of India's State Enterprises" by Zheng Hongliang and Zhang Yongshan published in JINGJIXUE DONGTAI [Economics Trend] Issue No. 12)

3. Universal characteristics of enterprise behavior: Seeking maximum welfare benefits for staff members and workers.

The first manifestation: Large numbers of redundant personnel, limited number of staff discharged, and the stress put on internal digestion. In the questionnaire, those believing that seeking other employment opportunities and developing new production activities are important or very important for settling redundant personnel accounted for 92.6 percent of the surveyed enterprises; believing that discharging workers is important or very important accounted for only 8.8 percent; believing that suspending distribution of bonuses to redundant personnel is important or very important accounted for 23.7 percent; and believing that it is important or very important for workers to seek a way for their living outside the enterprise accounted for 21.7 percent. Naturally, it is an objective fact that enterprises cannot independently discharge workers. In the questionnaire, 22.7 percent of the factory directors (managers) believed that they had no right at all to discharge workers, 41.5 percent believed that they had some rights, 26.1 percent believed that they basically had the right, 8.5 percent believed that they absolutely had the right, and 1.2 percent adopted an indifferent attitude. We can see from these figures that although the rights of enterprises to discharge workers are conditioned, they do partly possess the rights. It is because of subjective and objective considerations that the rights are not actually exercised. This reflects to a certain extent the behavior of enterprises at the present stage of exercising restraint in discharging workers, which has resulted in temporary protection of the wages and benefits of the redundant personnel though it cannot be regarded as maximization of welfare benefits from a long-term point of view.

The second manifestation: Wages, bonuses, housing distribution, and other material means have become the essential measures for stimulating workers' behavior. In the questionnaire, we asked about the importance of the role enterprise incentives played in stimulating worker behavior and the order was: First, promotion, which accounted for 96.7 percent; second, preference in housing distribution, 90.6 percent; and third, fourth, and fifth were public commendation, priority given to their children's employment, and offering education or training opportunities, which accounted for 80.8, 77.7, and 73.8 percent respectively. Viewed from another possible angle, workers have played a great role in enterprise policy decisions in this regard. For example, the questionnaire indicates: Those believing that workers do not play any role in the policy decisions concerning wages and distribution of bonuses accounted for only 12.3 percent; and 65.9 believed that they play a role; 21.8 percent believed that they play a great role. Those believing that workers do not play any role in the policy decisions concerning housing distribution account for only 4 percent; 45 percent believed that they play a role; and 51 percent believed that they play a great role. In such an environment with large voices, it is quite natural that enterprises have manifested the behavior of maximizing the welfare benefits of workers. This coincides with the common saying that "wages swallow up the profits."

The third manifestation: To make arrangements for redundant personnel, enterprises do not mind manufacturing losing products. Our questionnaire indicated that over half of the surveyed enterprises more or less turned out losing products. Some 62.4 percent of the enterprises believed that making arrangements for redundant personnel was the main reason for doing so, which outstripped the factors of the mandatory planning quotas imposed by the higher levels, lack of technology, and state subsidies. This shows that the binding force from external pressure and objective conditions is gradually diminishing while the factor of enterprises independently making decisions has been enhanced. The latter can effectively reflect the orientation of enterprise behavior. To be sure, making arrangements for redundant personnel is actually the policy proposition by the state. However, this cannot negate the strong tendency of enterprises willing to employ their workers, rather than discharge them under the current system. As mentioned previously, no discharge of workers is a form of good welfare benefits.

IV. Overall Analyses: How Far Are State Enterprises From Independent Commodity Producers and Operators?

We have already made an analysis of a series of behavioral orientations in state enterprises manifested under the factors of market, government, staff members, and factory director (manager). Of these four factors, the role of factory director (manager) is of special significance because the role of the other three factors can only be displayed through their policy decisions. Hence, while

making an overall observation of the behavior of state enterprises, we can ask the following question: How should factory directors (managers) who have their own behavior and target make policy decisions under the role of the market, government, and staff members, that is, forming concerted efforts?

According to Western enterprise behavioral theory, the behavior of a factory director (manager), who represents the enterprise operators, is many-sided. That is, apart from seeking monetary targets—high remuneration—he should also pay close attention to nonmonetary targets, such as professional safety, power and status, social reputation, and career and achievements. As there is a great difference in the environment between China's state enterprises and Western enterprises, the behavioral target of factory directors (managers) will have its own characteristics. Viewed from our survey, factory directors (managers) did not pay too much attention to salaries. When asked "What role does bonuses play in encouraging you to fulfill the contract quotas?" those replying not important accounted for 58.9 percent, those saying important and relatively important accounted for 38.1 percent, and those saying very important accounted for only 3 percent. The reason probably lies in: 1) Objectively, there is no proper gap between the bonuses of factory directors (managers) and ordinary workers. As a result, bonuses cannot play an effective stimulating role. 2) In an environment where the "egalitarianism" tradition prevails, the factory directors' pursuit of money is flagging while their pursuit for power, status, career, social contribution, and other nonmonetary targets is enhanced.

If we link the abovementioned behavioral targets of factory directors (managers) to the previously mentioned forces of the market, government, and staff members, and make an analysis by putting them together in the state enterprise behavior, we can see that the government departments play the biggest role, staff members play a secondary role, and the market is last. The reason lies in the fact that most of the factory directors (managers) are appointed by the higher level competent departments. Viewed from our questionnaire, although the number of factory directors (managers), who were selected through the market competitive means of public bidding account for 14 percent, relevant material indicates that the government departments still play a decisive role in such a form. Therefore, factory directors (managers) are most dependent on government departments. Once their relations with the government are not properly handled and their posts are affected, the target of factory directors (managers) would be out of the question. Naturally, as changes have taken place in the target trend of the government, that is, a shift from output value to profits and taxes, enterprises have also shown great interests in profits. They have particularly manifested their pursuit for maximum profits in market competition. Anyway, this adaptability is passive because our enterprises are not yet genuinely pushed to the market.

Viewed further from the relations between factory directors (managers) and staff members, although the proportion of the former being elected by the latter is still low, there are at least the following two reasons for factory directors (managers) to yield to the demands of staff members for welfare benefits: First, the widespread views of staff members will be reflected through various channels to the government departments, which in turn will affect the promotion of factory directors (managers); and second, effective work in enterprises cannot be separated from wages and bonuses while the salaries of factory directors (managers) are closely related to the wage level of the whole enterprise, therefore, they belong to the same interest group. To a certain extent, this gives an explanation of the increase in workers' wages and excessive consumption despite the decline in enterprise efficiency. When the government puts stress on state interests and strengthens control over the growth in consumption fund, the excessive consumption would ease somewhat and the proportion of revenue would increase somewhat. Generally speaking, however, it cannot eliminate the excessive consumption, which usually results in guaranteeing the two ends at the expense of the middle. In other words, the proportion of enterprise profit retention has reduced and the staying power of their long-term development has been undermined. Thus it can be seen that the behavioral target of China's state enterprises is still dependent. They are administratively dependent on the government departments and, on the other hand, they are dependent on interests of staff members. Thus, their proper feature of independent interest is not fully manifested. Although factory directors (managers) are the legal persons representing the enterprises in name, they cannot actually exercise control over enterprises and manifest their rational behavior under dual pressure from the state and staff members. For this reason, the burden is heavy and the road is long for reform of China's state enterprises!

CONSTRUCTION

Goals, Benefits of Housing Investment Reform

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16 May pp 30-33, 3

[Article by Huang Xiaohu (7806 1420 5706): "How Should the Urban Residential Housing Investment Structure Be Reformed?"]

[Text] Under the socialist planned commodity economy, a key link with an important bearing not only on residential housing construction but also on residential housing circulation and consumption is the proper solution to the housing problems of urban residents and raising funds for construction. In order to raise more funds for housing construction and, at the same time, use them properly, we must reform the urban housing investment structure.

During the 12 years from 1979 to 1990, the total urban residential housing investment in our country amounted

to more than 280 billion yuan, about 7.5 times that from 1950 to 1979. Over the past few years, funds used for construction and maintenance of residential housing amounted to about 40 billion yuan annually. Although the residential housing investment has increased, it is still far from meeting the demand. During the second half of 1991, the State Council held the second national work conference on residential housing system reform, put forward the phased targets for urban residential housing system reform, and demanded that the average per capita urban living space be increased to 8 square meters. To this end, during the Eighth and Ninth Five-Year Plans a total of 1.65 billion square meters of housing must be built. If the constant price of 300 yuan per square meter in 1990 is used for calculation, we need a total of 495 billion yuan, an annual average of 49.5 billion yuan. According to the current investment level, including maintenance expenses, we are still short of 1/5 of the funds each year. After allowing for prices increases and maintenance expenses, the financing gap is even larger.

With the development of reform, national revenue distribution has changed, as has the residential housing investment structure. Of all the residential housing investment in China today, 23 percent comes from state finance, 60 percent from self-raised funds by enterprises and institutions, and 17 percent from individuals. As viewed from the development trends, the residential housing investment from the state and enterprises will continue to increase with the further development of our economy but the potential will not be great. For a considerably long period of time after the founding of New China, investment in nonproductive purposes, especially for residential house construction, constituted a very low percentage in capital construction under the ownership of the whole people and thus severely affected the improvement of the people's living conditions. After the Fifth Five-Year Plan, this situation was reversed with the start of another erroneous tendency. During the Sixth and Seventh Five-Year Plans, the proportion of investment in nonproductive purposes reached 42.6 and 32.9 percent respectively, of which residential housing investment accounted for 21.3 and 12.7 percent respectively. Because a large amount of money was used in nonproductive construction, the investment for major productive construction fell short, affecting the reserve strength of economic development. In our nation's planned commodity economy, the construction of key projects having a bearing on the overall situation of our national economy relies mainly on state investment. However, the percentage of state financial revenue in the national income decreased from 37.25 percent in 1978 to 22.96 percent in 1990. After allowing for debt financing, it was only about 20 percent. This situation will continue for some time. Therefore, the state is not able to allocate more money for residential housing investment in the future. The greatest change in residential housing investment in the last decade is that the investment from enterprises has increased enormously, coming mainly from retained earnings in business or even from the

depreciation fund. Under the current residential housing system, these funds are irretrievable. According to a World Bank study, a conservative calculation shows that with the increase in new residential houses, the housing allowance for staff and workers in our country increased from 7 to 16 percent of their income in the period 1979 to 1988. This is undoubtedly a heavy burden for the enterprises. As the situation of one enterprise differs from another, some of them may still be able to make investments. In general, however, residential housing investment is made, to some extent, at the expense of the development of production, and will be difficult to have a big increase in the future.

However, regarding funds from urban residents for building residential housing, there is still considerable potential to be tapped. Although the state has tightened control over the consumption fund and has taken many measures to readjust commodity prices in the last few years, the current consumption surplus of the urban dwellers has still increased considerably. The bank savings at the end of each year are about 150 billion yuan more than that of the previous year, a much higher increase than in rural areas. By the end of 1991, the bank savings of urban dwellers totaled 679 billion yuan, not including a large amount of money in hand. One reason for this is that the demand of urban households for durable consumer goods, such as household electric appliances, is close to saturation, while a new consumer hot item has not yet to appear. It is predicted that the next hot item of urban consumers will be the improvement of residential housing conditions and the purchase of private cars. This prediction is reasonable. Compared with household appliances, residential housing is an even more essential consumer good. Because we practiced the low-wage system, and residential housing was arranged wholly by the state, it was not regarded as commercial consumption, and individuals had neither the need nor the opportunity to invest in residential housing. Changes have now taken place and the policy of residential housing merchandising has been gradually implemented. In addition, people now earn more money and some of them, especially after the development of the diversified economy, have even saved up large amounts of money. This more or less enables urban residents to invest in residential housing. Those who have great difficulties renting or are not allowed to rent now demand that public residential housing become an investment in residential housing construction.

At present, the state and enterprises remain the main investors in the construction of urban residential housing; investment by individuals is only a supplement. However, the proportion of this supplement should be gradually increased and the key point is to adopt effective measures to encourage and attract investment by individuals. From the practice over the past few years, we can adopt the following measures:

First, building private houses by individuals for their own use in separate places. Because houses built in this way are mostly isolated one- or two-story houses, they

take up more land and are not easily brought under a unified plan. This method should therefore not be adopted widely in large or medium-size cities with limited land and rigorous urban planning. However, it can be used in small towns and industrial and mining areas. Since the beginning of reform and opening to the outside world, the scale of building private houses in urban areas has been growing annually. This rapid growth came to a peak in 1988 when more than 14 billion yuan in private residential houses (including those subsidized by the state and enterprises) were completed. Due to lack of management experience, some problems occurred such as indiscriminate use of cultivated land, violation of city planning, and abuse of power for personal gain. After 1988, with the organization and improvement of work in land management by the state, the work of economic improvement and rectification, and the launching of the struggle against corruption, the building of private houses in urban areas was somewhat scaled down. Nevertheless, over 10 billion yuan's worth of such houses were still completed each year. Now that economic improvement and rectification has been accomplished and various aspects of management work has been gradually strengthened, another upsurge in private house construction will occur, especially in small towns where construction of scattered houses may even become the main form of residential housing investment. To encourage such a practice, the state should give it some support and preferential treatment in terms of finance, building materials, technology, and public utility. Such support and preferential treatment should be "transparent" and with well-defined regulations to guard against the abuse of power for personal gain.

Second, building houses in a cooperative way. This practice has a long history in other countries, even becoming the main form of residential housing construction in some. In the last few years, some housing cooperatives have also emerged in China but their ways of doing things are not exactly the same. Some followed international practice whereby the ownership of the finished houses belongs to the cooperative, while members of the cooperative enjoy the rights of use and inheritance. Others even grant ownership to their members as well. Nevertheless, their ways of raising funds are basically the same, that is, part of the money is from the individual, part from the individual's unit, and the rest from bank loans. This is an effective method of attracting individual investment by means of the state housing funds. It not only takes up less land but also ensures that city planning will be followed. Therefore it is applicable in both small towns and large or medium-size cities. Moreover, the development of the residential housing cooperatives can also help the people cultivate their spirit of democratic participation, self-management, unity, and mutual assistance. At present, this form of investment is not yet a common practice in our country and therefore should be encouraged and practiced extensively.

Third, financial and banking organizations should develop residential housing savings credit services. The general practice of these services is as follows: When the depositor's savings reach a certain proportion of the sum needed for the purchase of a house (usually 30 percent and, in some places, even with certain financial subsidy from the depositor's unit), he or she may apply to the bank for a loan equal to the rest of the required amount. This housing loan is characterized by a long-term repayment period, low interest, and, during the repayment period, the house property right is mortgaged. This practice is designed in essence to enable the state finance departments or banking units to attract long-term savings with a small discount interest. It not encourages individuals in purchasing houses but also adds some money to the housing construction funds. The savings and credit also helps the bank to balance its funds. In developing the business of providing funds for housing reforms over the past few years, all specialized banks have provided a residential housing savings credit service. The main channel for raising funds this way is through the Construction Bank, although in some places the main channel is the bank authorized to do business related to special funds for housing reform. Generally speaking, the business in residential housing savings and credit accounts for only a very small proportion of the housing reform financial business of the banks and therefore great efforts should be made for further development.

Fourth, establishing a residential housing fund and issuing housing bonds. The residential housing fund is actually a kind of compulsory savings, falling into the category of indirect investment. In the past, we practiced the welfare housing policy, but individuals or units did not enjoy equal opportunity. As a result, some people's living standards are very low and their problems have remain unsolved for a long period, while others have very spacious housing units and enjoy better social welfare. This is a kind of unfair social distribution. Under such circumstances, it is fair and reasonable to practice the residential housing fund system so that the state collects some money from individuals and units, and uses the money mainly to solve housing problems for the people. The people's wage income has now increased and state housing rent remains quite low. The people can afford to contribute a small sum of money to the residential housing fund. Besides, such savings are finally given back to each individual and can help pave the way for the residential housing system reform and for raising housing rents. As reform is getting deeper and houses are basically merchandised, it will then be advisable not to practice the residential housing fund extensively.

The issuing of residential housing bonds by house building departments is another good method. The purchase of bonds by individuals is not only a contribution to the state but also a way of sharing some construction profits at a rate higher than the bank savings interest rate. Buying such bonds is in the interest of both the state

and the people. However, since this is a profitable investment of individuals, they should, in principle, buy bonds at their own initiative. At present, in some places, staff and workers are asked not only to contribute to the residential housing fund, but are also compelled to purchase residential housing construction bonds. The appropriateness of doing so is open to discussion. It should be noted that there is a considerable difference among people's income and a rapid increase in the prices of daily necessities in towns and cities, especially in the large and medium-sized cities in recent years and that the actual living standard of the low-income group has been somewhat lowered. If these people are forced to contribute to the residential housing fund and at the same time to buy housing bonds, it means that they have to cut back on food and clothing. This will cause them to resist housing reform, and the reform will lose the people's support. For this reason, the issuance of housing bonds should not be carried out by administrative or compulsory means.

In future developments, there will be new methods to attract individual investment, such as combining bank housing credit with cooperative house construction, or even with individual housing construction. At present, in national urban housing investment each year, individual investment accounts for less than 10 billion yuan. If we are to do a better job in this respect, it is quite possible to increase individual investment by 10 to 20 billion yuan each year. If so, we can greatly alleviate the problem of housing funds shortage, and at the same time reduce the pressure of social surplus purchasing power on the market. Housing construction involves products of more than 50 production departments, such as building materials, metallurgical, chemicals, forestry, machine building, and instrument production. It can also give impetus to the development of such trades as household electric appliances, furniture, interior decoration, gardening, transportation, commerce, and restaurant. Therefore, the increase in housing investment is also of great significance to the readjustment of the industrial structure, so we must make up our minds to do it better.

In addition to trying by every means to raise more housing funds from urban residents, we must reform the management system for residential housing construction investment of the state and enterprises.

The core of this reform is to gradually change the ownership of houses by units and to make housing construction an independent industry. Nowadays, housing investment reform is designed to move away from the practice of state financing and direct allocation to administrative establishments and enterprises under ownership by the whole people. When a house is built, its property right belongs to the establishments or enterprise concerned. Moreover, an enterprise can also build some of the self-administered houses with its own funds. This system has quite a few disadvantages. First, it is difficult to be rational in allocating the investment, thus resulting in difference of residential housing conditions among

different units. Second, the non-unified housing management and maintenance is not only a waste of manpower and funds but also unfavorable for solving such problems as central heating, gas supply, and so on, causing energy waste and environmental pollution. The goal of this reform is to take the road of socialized housing management while endeavoring to turn housing estates into commodities, to establish and develop enterprises specializing in real estates, and to stop various units from directly building or managing housing estates. When houses are built, they are sold or rented directly to individuals. The current housing subsidies of various kinds, including state and enterprise housing investment, should be gradually incorporated into the wages of staff and workers who then have to purchase or rent houses with their wages. The money then flows back to the departments of real estates and is used again for building new houses. In this way, the housing funds can be used in a centralized manner. This is conducive to building houses in groups, building small multi-function residential areas with rational planning and good facilities, speeding up construction, and increasing the utilization rate of funds. If reform of the present residential housing investment system is carried out this way, the residential housing problem of urban dwellers can be properly solved and the management of the national economy and enterprises can be strengthened.

Under the current system, reform of residential housing investment is a reform of state financing and retained profits of enterprises, thereby falling into the category of the accumulated fund in national revenue. This is inconsistent with the original nature of the residential housing investment reform. Residential housing investment is essentially different from other fixed assets investment in that the former directly generates the end product—houses, while the latter forms only a kind of production capacity (for instance, factories, production lines, power generating sets, etc.). Only with further consumption of resources and a corresponding input of materialized labor and human labor can this production capacity generate certain kinds of intermediate products (means of production, such as steel products, cement, chemical fertilizers, and machinery), or end products (consumer goods, such as food, clothing, and household electric appliances). Houses are a type of durable consumer good. If viewed in each separate year, a house is not always completed in the same year that the investment is made and the completed house is not always occupied in the same year that it is completed. But viewed from the average over several years, there are always a number of newly-built houses included in the residents' consumption whose value is equivalent to the amount of investment made. Therefore, the original nature of residential housing investment is of a social consumption fund but at present we regard it as an accumulation fund, thus causing some difficulty in formulating rational arrangements for the management of the national economy in a planned and proportionate way, and for making rational arrangement for the accumulation and consumption of

national revenue. For quite a long time, many in theoretical circles have proposed, on the basis of their own experiences, that the rate of national income accumulation should be controlled between 25 and 30 percent; but statistics of the past seven five-year plans show that the rate exceeded 30 percent during five of these plans and, that in these five plans, there was a big difference in the increase in people's living standards. During the Second Five-Year Plan, the accumulation rate was 30.8 percent and there was a sharp decline in the people's living standards. During the Fourth and Fifth Five-Year Plans, the accumulation rate was about 33 percent and there was a slow improvement in the people's living standards. In the Sixth and Seventh Five-Year Plans, the accumulation rates were over 30 percent, that of the Seventh Five-Year Plan was even as high as 34.3 percent. However, there was a tremendous improvement in the people's living standard in these ten years. We can thus see that current statistics for the accumulation rate fail to give a true picture of the relationship between accumulation and consumption in national revenue. The reason is that some of the funds used directly for the people's living were included in the accumulation fund, whereas this "nonproductive accumulation" takes up a very different proportion in the accumulation fund in different periods. For instance, during the Second Five-Year Plan the "nonproductive accumulation" accounted for only 13.3 percent of the accumulation fund, while in the Sixth and Seventh Five-Year Plans it made up 44.6 and 35.3 percent respectively. Of "nonproductive accumulation," a very important component was residential housing investment. There is also a considerable difference in the percentage of residential housing investment in capital construction investment under ownership by the whole people. In the Second Five-Year Plan, the average was 4.1 percent; in the Sixth Five-Year Plan 21.3 percent; and in the highest years of 1981 and 1982, over 25 percent. At present, some people think that national revenue distribution excessively favors individuals, thus affecting reserve economic development strength, while others believe that the accumulation rate is too high. Each side sticks to its own view and this disagreement surely has something to do with the inaccurate reflection of the relationship between accumulation and consumption by statistical indexes under the current residential housing investment system. Because there is no common understanding, it is very difficult for us to handle this problem in our work. We believe that when the cost of current residential housing investment is gradually included in the wages of staff members and workers through reform and naturally in the consumption fund, this problem will be easily solved.

Because housing policy is of a welfare nature, residential housing investment in enterprises means extra income to the staff members and workers. From the point of view of business management, it should be included in the business costs. However, under the present investment system, the fund for residential housing investment is disbursed from financial expenditure or profits retained by the enterprise and is not included in business costs.

Thus, neither the costs nor the profits of an enterprise are accurate and this is not conducive to improving an enterprise's economic accounting. At the same time, it encourages the enterprises to bargain with and depend on the state. Since the goal of reform of enterprises under ownership by the whole people is to become producers and managers with independent business accounting and sole responsibility for their own profits or losses, cost accounting should naturally be improved. In the future, because housing subsidies will be included in wages for staff members and workers, it is a matter of course that it will be included in the costs. Enterprises will then no longer build or manage living quarters for their staff and workers and can concentrate their efforts on production. As for the staff members and workers, they can buy or rent houses from housing departments with their wages. Housing departments in turn will build more houses with funds they get from rent and payment for houses. In this way, enterprise production and housing construction will enter a good cycle. The difference between staff members and workers mainly lies in the wages they get. This also helps to carry out the principle of distribution according to work. However, the present housing subsidy can only be enjoyed by those who live in houses provided by their enterprises while those who do not, cannot enjoy it. Moreover, those who live in bigger apartments enjoy more housing subsidy than those living in smaller ones. So, it is difficult to treat everybody fairly.

Will it add to the burden of enterprises if the housing construction fund and other residential housing subsidies are included in the monthly wages of staff members and workers? As far as the entire society is concerned, the answer should be "no" because there has always been such housing expenditure. The only difference is that it would be changed into part of the cost instead of being drawn from funds disbursed for financial expenditures or from profits retained by enterprises, and the financial revenue or profits retained by enterprises will be correspondingly reduced. The result will therefore be just the same. But from the point of view of individual enterprises, the effect would be quite different. Enterprises that do not build or do not build many houses will find that profits retained for their own use will become less after increasing the wages of the staff members and workers, while hidden problems of poor management in other enterprises will be exposed and, if the enterprises do not make improvements, they will be in danger of being eliminated in market competition. On the other hand, enterprises that originally had a heavy burden of residential housing subsidies will be able to retain more profits for developing production when they would not need to make housing investments or provide housing subsidies but simply increase the wages of the staff members and workers accordingly to the average standard in society. In both cases, this is conducive to promoting reform of the management mechanism of enterprises, to promoting competition, and to making the socialist commodity economy prosperous.

Will it bring about skyrocketing prices to include the fund for residential housing investment and subsidies in wages? We should realize that it is possible that there may be an increase in prices caused by increased costs. And it will be unavoidable for enterprises with low profits, or deficits, to have such a problem. But this is just one side of things. Some enterprises may even be able to lower the prices of their products in order to enlarge their market after they get rid of the burden of housing investment and subsidies and retain more profits for themselves. Moreover, staff members and workers will spend the increased part of their wages mainly on rent and the purchase of houses rather than on other consumer goods in the market. With the reform of the housing system pushed forward step by step, it will even attract part of the purchasing power for other consumer goods to the housing market. So if there are no other factors causing inflation, the present situation of supply of consumer goods exceeding demand will not change. For their own survival, enterprises will try every possible means to lower costs and it is possible that they may lower the prices of their products. Generally speaking, there is no danger of prices skyrocketing because of the inclusion of housing subsidies in costs. From the above analysis, we can see that reform of the residential housing investment system in urban areas involves such matters as distribution of national revenue, management of the national economy, management of enterprises, and so on. It is an important link in the overall reform of the economic structure and its success depends on coordination of the reform in other fields. If it is carried out successfully, it can help push forward the overall reform of the economic structure. At present, the market environment is quite maneuverable and it is possible for us to increase the intensity of reform in this respect. Because it involves various aspects, we should be careful and prudent, take into consideration the tolerance of various quarters concerned, and avoid acting with undue haste while actively pushing the reform forward. So long as we are clear of our goal and push it forward step by step, we are sure to be successful in the reform.

Housing Reform in Experimental City Highlighted

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[Article by Xu Jingren (1776 2529 0088), secretary of the Bengbu City CPC Committee: "Practice, Understanding of Establishing New Operating Mechanisms for Housing"]

[Text] Reform of the urban housing system is an important component of economic structural reform. In October 1986, the State Council chose Bengbu City as one of the pilot projects for implementing comprehensive housing system reform. In accordance with the requirements for realizing the commercialization of housing, it was decided that housing system reform should be based on the following: "increasing rent and

giving subsidies," simultaneously promoting the sale and leasing of housing units, paying attention to the transformation of operating mechanisms, implementing the principle of shared responsibility between the government, the work unit, and individuals, and striving to develop new operating mechanisms for housing that meet the needs of the socialist planned commodity economy. In this way, we can speed up the pace of housing construction, increase the essential supply of housing units, tackle the housing problem, improve housing conditions for urban inhabitants, and lay a better foundation for the gradual realization of the commercialization of housing. Looking back over the practice of the last few years, we can sum up what we have learned in the following points:

1. Reforming the practice of charging low rents for public housing by raising rental fees is the central issue in housing reform. The fact that low rents are charged for public housing is the root cause of the drawbacks of our existing housing system. Unrealistically low rents have made it impossible for housing construction to maintain simple reproduction and have exacerbated the people's desire for more and better housing. This has resulted in an irrational consumption pattern and contradictions between housing demand and supply. The pressing task at the moment is to reform the rental system. Grasping this central issue of raising rental fees means grasping the crux of the problem. Without rent reform, transformation of the housing mechanism is out of the question.

The basic concept of Bengbu's housing reform program is to substantially raise rent standards for public housing, turn housing from a kind of physical distribution into a kind of monetary distribution by providing subsidies to staff and workers living in public housing units, gradually bring the production, distribution, exchange, and consumption of housing into the orbit of the planned commodity economy, bring about the benign circulation of housing funds, speed up housing construction, and help residents solve their housing problem. Based on this concept, we raised our standard monthly rent for public housing from 0.073 yuan per square meter of living space to 1.18 yuan. The new rent covers the five factors of depreciation, maintenance, management fees, interest on investment, and property tax. The new rent standard, which is 82.52 percent of cost rent, is 16 times higher than the old rent. This is a break away from the previous practice of "piecemeal" rent reform. In accordance with the principle of maintaining a balance between total rent increase and total subsidies, staff and workers in public housing are given a 21 percent increase in housing subsidies by their work units, using their basic wages as base figures, after the rent increase. In this way, "hidden subsidies" are replaced by "open subsidies." Housing subsidies are considered special wage subsidies, and they are being issued so that staff and workers will not be unduly burdened by the major rent increase. This is an intermediate link in the transformation of the housing system from one based on the distribution of material welfare to one based on the distribution of monetary

wages. It is also an effective way to promote housing reform through wage reform.

Major rent increases and the issuance of subsidies have brought about a change in the people's understanding of housing. Under the low-rent housing system, housing was regarded as a basic right of everyone rather than as a commodity. After the reform, although staff and workers affected by the reform program are equally entitled to housing subsidies equal to 21 percent of their basic wage, such subsidies are tied to their wages rather than their living space. Whoever occupies more living space has to pay more. Today, staff and workers can choose their housing according to their family income and ability to pay. Thanks to this, the growing demand for housing has basically been brought under control. Already more than 800 families have transferred or applied for transfer to smaller housing units.

At the same time, individuals are being encouraged to buy houses. At present, staff and workers have bought 4,388 housing units, both new and old, with a total area of 150,000 square meters. Moreover, housing reform has also laid the foundation for the reform and transformation of the distribution system and systems for real estate management, financing, and so on.

2. The establishment of funds for housing construction is the key to the realization of the principle of making the government, work unit, and individuals jointly bear the cost. In Bengbu City, funds for housing construction formerly came from two main sources, namely, funds for housing construction earmarked in the state budget for capital construction, and housing funds raised by various departments and units, chiefly funds raised by enterprises. The pooling, use, and recovery of housing funds were always in a state of flux. This not only restricted the development of housing construction, but restricted the enthusiasm of residents to invest in housing construction as a means of overcoming their housing problem. In reforming the housing system, it is necessary to establish a new system for pooling housing funds on the basis of the principle of making the government, work unit, and individuals jointly bear the cost, and gradually develop operating mechanisms that can bring about a benign circulation of housing funds. This is not only a necessary measure for raising rents and issuing subsidies, but is an objective requirement for ensuring a steady source of funds for housing construction.

In the spirit of relevant policies of the State Council, and in light of reality, urban housing funds in Bengbu City chiefly come from funds originally allocated by the city financial department for the construction and maintenance of public housing units and for rent subsidies; housing and real estate taxes levied according to stipulations; rental income from public housing estates directly under city management; proceeds from the sale of public housing; general income from public housing rentals; income of the housing savings bank from tax remissions, preferential treatment for non-participation in profit-sharing as well as the proportion of profits

handed over in subsequent years; funds pooled through such means as raising funds for housing construction, collecting lease premiums, and issuing housing construction bonds; interest income from housing funds; and funds from earned income. The housing funds of work units include rental income from public housing; a portion of the proceeds of the sale of houses; housing funds drawn at a rate of 8 percent of the profits retained by enterprises, or at 10 percent of the extra-budgetary net income of administrative units and public undertakings; funds pooled through such means as calling of funds for housing construction and collective lease premiums; as well as interest income from housing funds. Enterprise housing funds must be managed separately from other special funds and must not be reduced and used for other purposes. Individual housing funds come from funds from housing subsidies and savings set aside for the construction or purchase of houses. Through these three channels and after more than four years of accumulation, our city has initially established housing funds at the city, unit, and individual levels. Total housing funds steadily increased to more than 65 million yuan at the end of 1991. City, work unit, and individual housing funds account for 6 percent, 82 percent, and 12 percent respectively of total housing funds. Housing funds at various levels are managed and monitored as special funds. Based on their source, these funds are used for stated purposes, that is, for subsidizing rent increases in housing reform and for housing construction, maintenance, and management. This ensures fixed channels of funding for housing reform and for housing development, and provides the necessary conditions for the benign circulation of housing funds.

3. The establishment of a housing savings bank to pool and raise housing funds is an important means for speeding up housing construction. The ultimate aim of housing reform is to establish a mechanism for the commercialization of housing. At present, our pressing task is to create a housing credit fund that can be deployed and used in a unified way and can provide credit facility, seeing to it that funds are circulated through borrowing and lending activities and compensated use. However, under the existing system of division of labor between specialized banks, housing funds are scattered among different specialized banks and are mixed with other funds. This makes it difficult to ensure capital turnover needs for housing. Housing reform must thus be supported by financial reform. Service organs that handle real estate financing should be established. These are to become settlement and credit centers for housing funds, effectively organizing idle funds, absorbing savings set aside for housing, making proper use of housing funds, enlarging the scale of housing construction, and promoting the commercializing of housing.

With the consent of the State Council and the approval of the People's Bank of China, we have established a special organ for real estate financing—the Bengbu Housing Savings Bank. This regional shareholding financial enterprise enjoys management autonomy, assumes

sole responsibility for its own profits and losses, assumes its own risks, and strives to maintain a balance through its own efforts. Its operating funds mainly come from the local people and are spent on local housing reform and housing construction. Deposits in the Bengbu Housing Savings Bank mainly come from housing funds and individual savings set aside for housing. Starting this year, it will launch a public issue of housing construction bonds. At present, its balance held on deposits is close to 80 million yuan. In order to make better use of these housing funds, the bank has established a reasonable and flexible interest structure for its housing deposits and loans. Diversified and flexible forms of housing loans are granted to provide support to housing construction.

First, housing funds are placed under centralized management to ensure that the money is spent on housing construction. Housing funds established at various levels of our city must be deposited into special accounts in the Bengbu Housing Savings Bank and used for prescribed purposes. Besides guaranteeing the annual needs for housing maintenance, portions of these funds may be made available to the construction of new houses. Second, support is given to the pooling of funds for housing construction. With loans from the Housing Savings Bank, funds raised by the work unit and savings taken out of people's own pocket, enterprises and public institutions have been pooling housing construction funds to provide housing to residents within the middle and low income brackets who are living in cramped conditions, slums, and dilapidated houses. During the past few years, a total of more than 40 million yuan have been pooled for housing construction. Among these, funds from individuals, work units, and the Housing Savings Bank account for 24.7 percent, 23.3 percent, and 52 percent respectively of the total investment. A total of 2,600 housing units with a total floor space of 130,000 square meters have been built or are being built, and approximately 2,000 households of staff and workers have moved into these new units. Third, real estate business is promoted to support the development of commercialized housing. The Housing Savings Bank is providing financial backing to housing development companies and construction enterprises. It also provides funding for the development and construction of commercial housing. At present, new houses with a total floor space of 216,000 square meters and built at a cost of 27.12 million yuan are managed by the Bengbu Housing Savings Bank. The bank is also working with the Suburban Housing Development Company to develop the Zhihuai New Village. Total investment planned for this real estate project with a building area of 84,000 square meters is 38 million yuan. Thus far, 11 housing blocks with a floor space of nearly 20,000 square meters have been completed, inspected and delivered. Fourth, long-term low-interest loans on mortgage are offered to residents wishing to buy or build houses. These low-interest loans are suited to the economic tolerance level of residents, and loans amounting to 2.3 million yuan have already been granted to 132 households.

4. Formulating and implementing appropriate policy measures is a sure guarantee for promoting the transformation of housing mechanisms. Housing reform is a good cause which benefits both the country and the people. It is also a complicated project of systems engineering that touches on the vital interests of the great majority of households. In our medium-sized city, which lacks economic strength, the transformation of housing mechanisms through substantial rent increases is likely to affect a great number of people. Thus, we have formulated and implemented a number of appropriate policy measures to ensure the smooth implementation of the housing reform program and effect the transformation of housing mechanisms.

First, households with increased expenditure are to be given tax breaks, tax remissions, and subsidies for a period of time. Major rent increases will invariably mean that some households will have to pay more for housing. This readjustment of interests is both fair and reasonable; however, while insisting on the principle of more payment for more living space, it is also necessary to take into account the reasons why people occupy more living space, as well as the special circumstances of large families that have very few workers and low incomes. Households with increased expenditure are to be given tax breaks, tax remission, and subsidies for a period of time. As their income increases, the amount of subsidies should be reduced or even canceled altogether.

Second, surplus housing subsidies for households with a subsidy surplus are to be paid on a prorated basis. When total rent increase is balanced against total subsidies, some households affected by the reform may have more surplus housing subsidies than required by the new rent because their living space is below average. To prevent the loss of funds through excessive housing subsidies and to improve the effect of capital input in housing construction, we have introduced the method of paying surplus housing subsidies on a prorated basis. Instead of direct cash payments, subsidies are transferred to the person's account and parts of the housing subsidies payable are deposited into banks as individual housing funds.

Third, preferential prices are to be offered to individual staff and workers buying houses. Selling public housing to residents is a basic measure for promoting the commercialization of housing and speeding up the circulation of funds. We have adopted the practice of leasing after sale for newly built public housing and old housing units which have been vacated and, on the basis of major rent increases, have rationally readjusted the ratio between rent and selling prices. Staff and workers are entitled to a preferential standard price when they buy public housing units with a living area within the limits stipulated by the state. Prices cannot be fixed too high or too low. If they are too high, housing will be beyond the tolerance level of staff and workers, while if prices are too low, this will negatively affect the recouping of housing funds. In addition, residents are to be offered long-term, low-interest mortgages for home purchase.

After saving 30 percent of the required amount in the Housing Savings Bank, a home buyer may apply for a mortgage. After the purchase, the buyer is entitled to a portion of the property rights, which can be inherited or sold.

FOREIGN TRADE, INVESTMENT

Patent Official on New Patent Law Amendment
92CE0666A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 6, 27 Jun 92 pp 9-11

[Article by Wen Xikai (2429 1585 0418), deputy director, law and policy department, State Patent Office: "Patent System Improving Amid Reform, Openness"]

[Text] The Patent Law adopted by the fourth meeting of the Sixth National People's Congress (NPC) on 12 March 1984 was the nation's first piece of legislation intended to protect inventions and creations through patenting and systematically regulate the civil relations between inventors, between an inventor and a unit, and between an inventor and the public as far as inventions and the use of inventions are concerned. It signals that China has entered a new era in the protection of intellectual property rights and marks a milestone in the history of law-making in that area. China's 1984 patent law is brief and to the point in form, true to our national characteristics. Moreover, to facilitate intercourse with the international community, the law incorporates all the strong points in every modern patent law around the world and strictly adheres to the three principles laid down in the Paris Convention on the Protection of International Industrial Property Rights (hereafter abbreviated as the "Paris Convention"), namely national treatment, preference, and patent independence. Considering that China is a developing socialist nation with what is essentially a planned economy supplemented by market regulation, a nation whose level of productive forces is still quite low and which lacks experience in patent examination, management, and protection, the law includes some provisions that are specially suited for developing nations like China. For instance, chemicals and drugs are not offered patent protection and the patent holder does not have import right but is obligated to manufacture his product or use his method in China. During the past few years the State Patent Office has received and approved a steadily rising number of patent applications, with the volume of patent applications exceeding 50,000 in patent year 1991 alone. By late February 1992 the State Patent Office had received an accumulative total of 224,352 patent applications from 62 nations and regions and approved 89,867. Absolutely speaking, China must be considered a power in patenting. However, this does not mean that there is no need to improve China's patent system. On the contrary, owing to new trends and new patterns in world economic development and to the increasingly prominent role of intellectual property rights, including

patents, in the global economy, in science and technology, and in trade ever since the end of World War II, particularly since the 1970's and 1980's, the trend in the protection of intellectual property rights is internationalization and international coordination. This trend requires all nations to adopt uniform standards regarding patent protection in order to reduce the duplication of such administrative procedures as examination and approval, give inventors' legitimate rights and interests maximum protection, and promote the interflow of inventions and trade on a global scale. This spirit is embodied in both the patent section of the supplementary provisions of the Paris Convention on the Protection of Industrial Property Rights (hereafter referred to as the "Coordination Law") tentatively adopted in Hague in June 1991 under the auspices of the World Organization of Intellectual Property Rights and the "Trade-Related Intellectual Property Rights Agreement" or "TRIPS," adopted in Geneva in November 1991 after a new round of negotiations on intellectual property rights, part of the Uruguay Round of the General Agreement on Tariffs and Trade. In view of the need to continue to deepen reform, liberate and develop productive forces, broaden the open policy, and intensify international cooperation, two years ago China further modified the proposed Patent Law Amendment by adding a number of entirely new provisions. The proposed Patent Law Amendment has been submitted to the State Council for discussion and will be sent to the standing committee of the NPC for its deliberation and approval. If adopted, it will go into effect on 1 January 1993. Its contents cover the following major areas:

1. Expand the Scope of Patent Protection To Include Chemicals and Drugs

The new proposal stipulates that chemicals and drugs also come under patent protection. This is a major policy on the part of the Chinese government. Historically speaking, it took 90 years or so for developed capitalist nations to complete the transition from the nonprotection to the protection of materials. Recognizing the enormous significance of the patent system for the protection and encouragement of inventions and creations, and considering the trend in the world today toward growing protection for intellectual property rights, the "Coordination Law" and TRIPS also explicitly require their signatory nations to offer patent protection to the invention of chemicals and drugs. The difference of opinion in this matter has become a controversial issue to the detriment of international trade. To further improve China's structural reform, spur the internationalization of the patent system, and enable good technological inventions to cross national borders and transcend different cultures and economic systems and serve mankind better, the Chinese Government has decided to abolish the plan adopted earlier in accordance with standards appropriate for developing nations under which it would take 15 years to complete the transition from material patent non-protection to material patent protection. Instead China is to give patent protection to

chemicals and drugs in one stroke. Since the transitional period is so short, there will be many difficulties, but such a step is inherent in the deepening of reform within China and developments outside.

2. Extend Applicability of Method Patent To Cover Products Directly Derived From a Method.

Under China's current Patent Law (the Patent Law of 1984), the method patent holder's right is limited to preventing others from using his method without permission. This exclusive implementation right does not apply to products derived directly from a method. Since it is rather difficult to prove that another person has used a patented method, the patent infringer can escape responsibilities with a few modifications. Thus the right of the method patent holder is a highly restricted one. China's Patent Law says, "In the event of a patent infringement dispute, if the patented invention is the manufacturing method of a product, the unit or individual making a similar product shall produce evidence of its manufacturing method." What the law does is to shift the burden of proof to protect the right of the inventor of a patented method from being infringed upon wilfully. But what the law does not do is to prevent a foreign enterprise from making a product overseas using that method and then exporting it to China, thereby invading the patent holder's market without being sued. To close this loophole in patent protection, the proposed Patent Law Amendment will treat the method and the product directly derived therefrom as an integral whole for patent protection purposes. Patent protection for a method will be extended to cover the products directly derived therefrom as well. This means that once it is adopted by the standing committee of the NPC and goes into effect, any invention or creation that can be patented under normal international rules would also be eligible to apply for patent in China without discrimination. In the case of a product, including chemicals and drugs, the inventor may apply for a product patent; in the case of a method, the inventor may apply for a method patent; and if the method is a production method, it will be within the right of the patent holder not only to prevent others from using the method without permission, but also to prevent others from using, marketing, or importing products directly derived from the method without permission.

3. Give Import Right to Patent Holders

Under China's current Patent Law, the patent holder's exclusive implementation right does not include the right to import. He cannot directly protect his own market from infringement at the import end. All he can do is to exercise his exclusive right at the marketing and use end after the product in question has been imported. By then, however, the product will have entered the market everywhere and the patent holder would be faced with a host of violations, which makes it harder for him to take legal action. Considering that explicitly providing the patent holder with an import right would make it easier for him to sue an individual who violates his

patent by importing a patented product without permission and in view of the fact that an import right has already been written into both TRIPS and the "Coordination Law," we have added such a provision to the proposed Patent Law Amendment.

4. Lengthen Patent Protection Period

One of the underlying premises of the Patent Law is that the duration of a patent should be such that it would encourage inventions and creations and spur industrial development. It was precisely this consideration that prompted China to set the patent protection period at 15 years, starting from the day of application. In special cases such as those involving chemicals and drugs, however, an inventor would need an additional 10 years or so to complete pathological, virological, and physiological studies and clinical trials and secure the necessary approvals and registration from the departments in charge after applying to have his laboratory findings patented. In these cases, the patent period of 15 years is a little too short. Both TRIPS and the "Coordination Law" set a protection period of 20 years, starting from the day of application. Under the proposed Patent Law Amendment, the invention patent protection period will be 20 years from the day of application; practical new-model patent, eight years; and industrial design patent, 10 years.

5. How To Appeal a Decision by the State Patent Office

It is common practice around the world to allow an applicant whose application for patent has been turned down by the patent bureau to appeal its decision and ask for a review. In addition, he is allowed to challenge the results of the review by filing a suit with a court of law. The purpose of these procedures is to ensure that decisions of the patent bureau are legal and proper. Under China's existing Patent Law, there is a patent review committee within the State Patent Law. An applicant may appeal a decision by the office to the patent review committee. If he does not agree with the decision of the patent review committee, an invention patent applicant may challenge it by filing a suit with a court. For a practical new-model patent or industrial design patent applicant, however, the decision of the patent review committee is final. The main reason is that when China's patent system was first put together, the courts had no experience in hearing and trying patent cases involving the determination of rights and were severely understaffed. It would have been difficult to require the courts to handle all three kinds of patent cases. Since the economic implications of applications for practical new-model patents and industrial design patents are usually more limited, a decision was made to treat them differently. This provision also applies to requests for a null and void declaration. In cases where a person requests that a practical new-model patent or industrial design patent be declared null and void, the decision of the patent review committee is final. To increase protection for patent applicants and patent holders, the proposed Patent Law Amendment provides that parties in all three

kinds of patent cases—invention patent, practical new-model patent, and industrial design patent—as well as parties in disputes over requests for a null and void declaration may challenge the decision of the patent review committee by taking their case to a court of law. No longer will a decision of the patent review committee be final.

6. The Patent Holder's Implementation Obligation

Under China's existing Patent Law, a patent holder has the obligation to manufacture his patented product or use his patented method in China or allow others to manufacture his patented product or use his patented method in China. If he fails to fulfill this obligation, the State Patent Office may grant mandatory permission to enforce the patent. This provision prevents a patent holder from fulfilling his obligation to implement his patent by manufacturing his product or using his method in a foreign nation and then exporting the product back to China. This provision is consistent with the basic spirit and terms of the Paris Convention. It is also a common practice among many developed and developing nations. As international trade expanded in the past few decades, however, the trend in the world is to facilitate international trade to the greatest extent possible by dismantling trade barriers and removing discrimination against imports in order to make the most of human resources and steer funds and raw materials toward where they would be used most efficiently. In the overall context, moreover, it is both uneconomical and unrealistic to demand that an invention be implemented in the nation requesting protection. Thus the trend in the world is to regard imports as a method of implementation and not require the patent holder to honor the obligation of local implementation. China's proposed Patent Law Amendment provides for an import right for the patent holder. This means that the state will not be able to grant mandatory permission on the grounds that since the product is imported, the patent is not being enforced locally. Accordingly, the proposed Patent Law Amendment stipulates that importing is one way in which a patent holder can fulfill his obligation. Only when the import cannot satisfy market demand for a variety of reasons and the patent holder fails to take correction actions can the state conclude that the patent holder has abused his exclusive implementation right and grant mandatory permission.

7. Further Improve Examination and Approval Procedures

Pooling seven years of experience in implementing the Patent Law, we seek to change some procedures through the proposed Patent Law Amendment in order to improve China's patent protection system, such as abolishing the pre-approval objection system as a means of expediting the examination-and-approval procedure; adopting from abroad the domestic preference system, making it even easier for people at home to apply and

making the application system better; properly tightening the examination of applications for practical new-model patents to improve the quality of such patents; and introducing a right restoration system to make things as easy as possible for patent applicants and patent holders and protect their legitimate rights and interests.

These are the major issues in the proposed Patent Law Amendment. The amendment realizes the objective of the patent system—contribute to the deepening of reform and further liberate and develop productive forces—and embodies our firm position, namely adhering to the open policy, trying to match international standards, intensifying international cooperation, and further expediting economic construction.

Ministry Not To Recommend Products for Import Substitution

92P30001 Beijing RENMIN RIBAO in Chinese
22 Aug 92 p 2

["Ministry of Machine-Building and Electronics Industry Will No Longer Publish a List of Products Recommended for Import Substitution"]

[Text] XINHUA Beijing 21 August (reporter Gu Hong-hong 7357 3163 3163)—This reporter has learned from the Ministry of Machine-Building and Electronics Industry that in view of the fact that "recommending products for import substitution," which has played a major role in spreading advanced products of the machine and electronics industries, no longer suits the requirements of reform and opening up, the Ministry has decided henceforth to stop using this method. As of last October, the Ministry has no longer been publishing the list of "products recommended for import substitution."

Since 1987, the Ministry of Machine-Building and Electronics Industry has published successive lists of "products recommended by the machine and electronics industries for import substitution," recommending to domestic and foreign consumers machines and electronic products that are both technologically advanced and that China, having imported and transformed technology, can produce in stable batches. This work has had a positive effect on linking information channels between producers and consumers, enhancing the reputation of state-produced machines and electronic products, adjusting the product mix, and expanding exports.

In order to meet the needs of furthering reform and opening up, develop and expand China's economic cooperation and trade with foreign countries, and raise the standard of machines and electronic products, the Ministry of Machine-Building and Electronics Industry encourages enterprises to make use of favorable price ratios to directly participate in international competition.

LABOR

Labor Head on Wage, Social Insurance Reforms

92CE0638A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese No 3,
24 May 92 pp 6-12

[Article by Minister of Labor Ruan Chongwu (7086 1504 2976); Editor, Jiang Dongsheng (5592 2639 3932): "Intensify Reform of Labor, Wage and Social Insurance Systems and Promote Transformation of Enterprise Management Mechanisms"]

[Text] Speeding up the reform of economic systems concentrating on the urban and transforming enterprise management mechanisms are important tasks for us in developing the commodity economy. Through reform we must make enterprises truly become totally vital and vigorous commodity producers and managers. To solve this problem we must deal with two relationships: The first is to establish the correct relationship between the state and enterprises, separating government and enterprises so that enterprises can truly become legal persons that are self-managing, responsible for their own profits and losses, self-restraining and responsible for their own development. Secondly, we must establish the proper relationship between enterprises and their staffs, maintain the staffs' positions as masters, and arouse the enthusiasm of the staffs. There are many relationships between enterprises and staffs, but the most important are the labor, wage, and social insurance systems. Thus, reforming the labor, wage, and social insurance systems is the key to properly establishing the relationship between enterprises and staffs and transforming the internal management mechanisms of enterprises. Since reform and opening up, reform of the labor, wage, and social insurance systems has achieved remarkable success. Fervor for reform is now in ascendancy and is proceeding in an active and healthy manner. Now, the task of intensifying reform of the labor, wage, and social insurance systems has the following main aspects:

I. Fully Realize the Importance of a Labor Contract System for All Personnel and Actively and Reliably Promote Reform of the Labor System

The goals for reform of the labor system are defined in the 10-year Plan for Development of the Chinese National Economy and Society and the Outline of the Eighth Five-Year Plan passed by the Fourth Session of the Seventh National People's Congress. That is "state macroeconomic adjustments and controls, enterprise control over employment, the coexistence of many forms, and labor contracts for all personnel." The core of this is implementing a labor contract system for all personnel.

What is meant by a labor contract system for all personnel is that all of the workers in an enterprise (including managers, technical specialists, and operators) come to a consensus with the enterprise in an equitable and voluntary manner through consultation and by signing a

labor contract define and realize the responsibilities, authority, and benefits of both sides and by law determine labor relationships and administer the new type of employment system in accordance with the contract.

In the early 1980's, with enterprise reform, some regions began to experiment with a labor contract system. Around 1985 more than 3 million workers were experimenting with this system, forming a new type labor force. In 1986 after seriously reviewing the experiment, the State Council promulgated four regulations, including the Provisional Regulation on Implementing a Labor Contract System in State-owned Enterprises to implement a labor contract system for newly employed people. With several years of practice, this new type of employment system has been constantly improved and stabilized and the work force has constantly expanded. Currently, nationally more than 15 million workers, more than 14 percent of workers, have the labor contract system. Quite a few regions and enterprises, based on improvements in the labor contract system for newly employed workers, have further reformed enterprises' original fixed labor system and with such measures as preferential labor makeup (or equitable labor makeup) and contractualized job management, have experimented with a reform to have all workers under a contractual system. Now, throughout the country more than 35,000 enterprises have more than 10 million workers participating in preferential labor makeup (or equitable labor makeup), and such provinces and municipalities such as Beijing, Shanghai, and Liaoning are actively conducting an experimental labor contract system for all workers. Practice proves that the labor contract system increases the vitality of enterprises and is an important measure promoting transformation of enterprise management mechanisms. It aids in the optimum combination of workers and means of production, helps to protect the legal rights and interests of both the enterprises and the workers, and helps to increase the workers' sense of responsibility as masters.

A labor contract system for all workers is a necessary trend in the development of the planned commodity economy. The planned commodity economy demands that enterprises manage themselves and be responsible for their own profits and losses, and enterprises must depend on their own forces to strive for their existence and development in market competition. If they still have a rigid labor wage system, they cannot arouse the workers' enthusiasm and the enterprise will lose its vitality; in the end it will certainly incur losses and go bankrupt. To improve labor productivity, enterprises definitely must accomplish an equitable distribution of labor and means of production. Enterprises have hiring authority and workers have the right to select an enterprise. This is beneficial to both the enterprise and the workers. In a commodity economy, there are two main parts to labor relations, one is the enterprise as legal person and the other is the workers. While guaranteeing the overall interest and the long-term interest of the state, we must maintain the legal rights and interests of

enterprises and their staffs and both must carry out their duties to the utmost. This entails putting labor relations under the law and implementing a contractual labor system for all workers.

Determining labor relations through labor contracts also is a commonly used form in capitalist countries, but there are essential differences from China's labor contract system. China's labor contract system for all workers is established on the basis of a system of common ownership of the means of production. Workers own the means of production and there is no relationship of exploiting and being exploited between enterprises and workers. So, we also cannot talk about employer and employee. Enterprises and workers together create wealth for society and satisfy the people's material and cultural needs. Workers are the masters of society and are the masters of enterprises. As long as the system of common ownership of the means of production does not change, the position of workers as masters cannot change.

In the planned commodity economy, implementing a labor contract system for all workers not only will not weaken the workers' position as master, by the labor contract stipulating both sides' rights and duties, the workers' position as master can be clarified and strengthened by law. The master should not only enjoy the masters' rights, but also should perform the masters' duties. Enterprises and workers should be restrained and guided by disciplinary and policy rules and regulations. The masters' sense of responsibility cannot be exercised in the old way of it not mattering if they do something or not or if they do a little or a lot.

The labor contract system for all workers is the direction for reform of the labor system and it must be enthusiastically and reliably carried out in accordance with the demands for transforming enterprise management mechanisms, upholding all tested principles. On the basis of enthusiastically carrying out the preferential labor makeup (or equitable labor makeup) according to fixed quotas, competition for jobs, and job contract management, regions and enterprises that are prepared should experiment with a labor contract system for all workers. Starting at the base and working incrementally, we should strive to gradually spread and popularize it throughout the country.

Implementing the labor contract system for all workers is not just to reduce personnel, but in the process of reform some personnel will necessarily become superfluous. Superfluous personnel in enterprises is now rather commonplace. At the same time, every year there is a large new growing work force that needs jobs. Add to that the fact that the social insurance system is not sound and if all the superfluous personnel after enterprise reform flow into society, it could greatly increase the employment pressure, creating an unsettled society. Thus, while taking care of enterprises' superfluous personnel we can only implement a policy that is mainly enterprises absorbing and secondarily adjustments in society and

establish a reemployment service system that combines enterprises with society. In recent years, several regions and enterprises in accordance with their own actual situations, have helped over 60 percent of superfluous personnel to acquire appropriate positions through development of third industries, in factory training, in waiting assignments to factories, early retirement, inter-factory exchanges, and self-devised outlets. This is a successful experiment and an effective method that conforms to China's national character. Regarding social insurance, recent adjustments in the method of assistance for those awaiting employment and appropriate expansion in the scope of assistance have increased society's capacity to place superfluous personnel; at the same time it has also used some of the unemployment insurance funds to support enterprises themselves in absorbing superfluous personnel. In the future, with the development of society and the economy, further improvements in cross-professional training, and the development of employment organizations, society's employment service systems will become more sound and the capacity to place enterprises' superfluous personnel will further increase.

II. Implementing the Principle of Distributing According to Labor, Improving Methods of Overall Wage Adjustments and Controls, Gradually Implementing a Job Skill Wage System

Allocation according to labor is a socialist principle and is a manifestation of socialist public ownership. Since reform and opening up, the method of linking overall enterprise wages with economic performance has gradually been implemented, expanding enterprises' self-determination in internal allocation of wages.

The allocation of wages is to workers as land is to peasants. It is the vital interest of greatest concern to workers and an important method of arousing worker enthusiasm and creativity. Since reform and opening up, with the development of the national economy and based on the development of production, staff wages have increased rather rapidly. From 1978 to 1991, the national average annual monetary wage for all workers rose from 615 yuan to 2,365 yuan, an average annual increase of 11.9 percent. Discounting inflation in the index for cost of living prices of workers during that period, the actual average annual wage increase was 3.88 percent, ten times the 0.38 percent average annual increase from 1952 through 1978. This is the material base for expanded worker support for the four basic principles and support for reform and opening up policies.

Analysis and study of large amounts of statistical data, and of the actual situation, show that since reform and opening up, although growth in wages of workers has been rapid, it is appropriate to the development of production, and the ratio is appropriate and stable. From 1978 through 1990, the ratio of growth in actual total worker wages to the growth of national income was 0.87:1 (in the Seventh Five-Year Plan it was 0.69:1) and

the ratio of growth of actual average worker wages to the growth of rate of labor productivity was 0.68:1 (in the Seventh Five-Year Plan it was 0.50:1). The ratio of total worker wages to gross national product, national revenue, national income consumption, and enterprise costs essentially remained at an average of 16.7 percent, 20.2 percent, 29.3 percent, and 7.5 percent—consistently fairly stable. In 1991 the actual average national worker wage increased by 4.7 percent over the previous year, lower than the 6.2 percent national independently accounted increase in the labor productivity rate for all workers in industrial enterprises.

But because China's individual income distribution pattern tends to be diverse and disparate and wage increase mechanisms are not sufficiently perfected, in China's overall worker wage structure bonuses and allowances increased more than standard wages. The proportion of standard wages in overall wages gradually shrank from 85.7 percent in 1978 to 54.8 percent in 1989, and in 1990 it rebounded somewhat, still only 57 percent. But various staff bonuses, allowances, and subsidies increased 15-fold in 12 years for an annual increase of 26 percent, nearly 1.5 times higher than the rate of growth of standard worker wages.

In workers' cash income, income beside wages grew faster than wages. Other income beside worker wages (on the job cash and goods acquired by workers from the unit and outside in addition to total wages) increased from 4.65 billion yuan (equivalent to 8 percent of total wages), 49 yuan per person, in 1978 to more than 90 billion yuan (about one-third of total wages), 714 yuan per person, in 1990, an average annual increase of 25 percent.

In workers' total real income, benefits grew more than worker monetary income. In 1990 various overt and covert subsidies received by individual workers directly or indirectly from their units and the state are estimated to have reached 89.2 billion yuan and the cost of insurance benefits was 93.79 billion yuan (a considerable portion of this was essential expenses such as retirement costs and healthcare costs), a 12 year average annual increase of 23 percent. The two together were equivalent to 62 percent of total worker wages. These problems can only be gradually resolved with intensified reform.

Linking total enterprise wages to economic performance is an important reform that the state has made since 1985 in the enterprise wage allocation system and the wage planned control system. Now, nationwide more than 95,000 state-owned enterprises link wages with performance (essentially all large and medium-sized state-owned enterprises have the linkage) and there are 38.75 million workers, making up approximately 55 percent of state-owned enterprise workers in linkage enterprises. As a way of exploring grade administration, we also experimented with overall linkage for sixteen industrial sector enterprises in Fujian and Yunnan provinces, the railroad and post and telecommunication, and enterprise groups in five cities with provincial-level economic decisionmaking authority.

Practice has shown in recent years that results are generally good from linking wages with performance. 1) It promotes improved economic performance. For example in the 1989 economic slide industrial enterprise tax and profit revenues in the national budget decreased by 35 percent, achieving a meager 1.1 percent growth in taxes and profits, but tax and profit revenues from linked enterprises increased by 10.7 percent, achieving a 7.5 percent growth in taxes and profits. In 1990 tax and profit revenues from industrial enterprises in the national budget decreased by 12.7 percent, showing a 22.2 percent decline in taxes and profits, but tax and profit revenues from linked enterprises rose by 3.3 percent, showing a 14 percent decline in taxes and profits. 2) Beginning to foster a consciousness and a capability for self-restraint in enterprise wage increases. Linked enterprises have generally established reserve wage funds. Now, they total 15 billion yuan. In periods of enterprise economic decline, this makes up for shortages and plays an active part in stabilizing the work force. 3) "Increasing people without increasing wages and reducing people without decreasing wages" encourages enterprises to use people economically and raises the rate of labor productivity. 4) It is helpful in transforming enterprise mechanisms and enhancing control over wage funds. According to statistics, in the past six years, discounting such factors as remedial prices, the proportion of growth in overall wages to growth in economic performance for linked enterprises was generally controlled at about 1:0.8. According to the inter-linked base figure growth method of calculating, from 1985 through 1987, the proportion of linked enterprise taxes and profits submitted to the increase in overall wages was 13.5 percent:11.3 percent (1:0.84) and for nonlinked enterprises it was 6.8 percent:15.5 percent (1:2.3). In 1988 the proportion of taxes and profits submitted to overall wage increase for linked enterprises was 32.7 percent:18.3 percent (1:0.56), and the proportion of taxes and profits realized to overall wages was 29.9 percent:23.5 percent (1:0.79) for linked enterprises. For industrial enterprises (including unlinked enterprises) in the national budget it was 17.7 percent:23.8 percent (1:1.34). In 1989 the proportion of the increase in taxes and profits submitted to the increase in overall wages for linked enterprises was 10.7 percent:9.1 percent (1:0.85). For industrial enterprises in the national budget (including nonlinked enterprises) it was -35.5 percent:12.7 percent. In 1990 the proportion of growth in taxes and profits submitted to growth in overall wages for linked enterprises was 3.4 percent:2.7 percent (1:0.79), and for industrial enterprises in the national budget (including nonlinked enterprises) it was -12.7 percent:10.7 percent.

The situation described above indicates that we should persist in this method of linking wages with performance. Certainly specific methods should be improved on and the single linking indicator should be changed to complex linking indicators to totally and accurately reflect the enterprise's actual economic performance. We especially should increase the assessment of the product

of investment, the guaranteed value of state assets and reproduction, and eliminate the affect of nonlabor factors (such as price changes) as much as possible. Methods should be standardized as much as possible to facilitate cross comparisons and to reduce such maladies as "one factory one rate" and an incomplete base. We should establish strict approval and accounting systems and enterprises should bear losses as well as profits. That is, there should be a down linkage as well as an up linkage. In addition, enterprises' self-restraint mechanisms should be constantly enhanced.

While perfecting the linkage of wages to performance and making mechanisms to adjust and control overall wages sound, we also must pay close attention to reforming enterprise internal allocation systems and gradually implement a job skill wage system.

The enterprise internal wage allocation system in presently a prominent problem. It still is egalitarian. The Proposal from the Seventh Plenary Session of the Thirteenth Central Committee and the 10-year Plan for Development of the National Economy and Society and the Outline of the Eighth Five-Year Plan explicitly pointed to reform of enterprise internal allocation systems. Enterprises must gradually implement a job skill wage system as the main form of internal allocation system. It is in principle distributed according to labor, and with enhanced macrocontrols of wages, it is based on the evaluation of such basic labor factors as labor skills, labor responsibility, labor strength, and labor conditions and is a basic enterprise wage system that uses staff labor contribution as the basis in determining labor pay.

The ranked pay system that Chinese enterprises used for a long time in the past was transplanted from the Soviet Union. This wage system historically had a positive affect, but it has a certain essential weakness, mainly that it lays too much stress on evaluating labor capability and not labor itself. When our deviations in implementation are added, the result is a rigid system where "the establishment of grade depends on schooling and promotion depends on records of service." With intensification of reform of the economic system, a number of enterprises are combining various allocation forms that they have created from their own actual situation. Summing up effective professional experiences of enterprises, we have formed the job skill wage system. Presently, the experiment with the job skill wage reform is making stepped up planned progress in large- and medium-sized enterprises. According to statistics from 21 provinces, autonomous regions, municipalities, and cities with province-level decisionmaking authority, and 48 ministries and commissions, as of the end of 1991, the number of enterprises trying the job skill wage system on their own had reached 279 and the number of workers was 1.58 million.

Reform of enterprise internal allocation systems adheres to the principle of enterprises increasing wages from increases in their own incomes. Enterprises that implement the job skill wage system can combine various

aspects from their own situation and adopt various forms of allocation such as piece wages, hourly wages, fixed wages, floating wages, and job structure wages. They also must make up their minds to establish operating mechanisms for the job skill wage system to adapt to the needs of economic development and intensified enterprise reform.

Inability to recruit or retain people in arduous jobs is an important factor affecting enterprise economic performance. Some statistical data indicate that while enterprises commonly have surplus personnel, some production jobs have a rather serious lack of personnel. Wage allocation should become a lever regulating the flow of labor and should lead enterprises to do a good job of evaluating job labor and slant wage and bonus allocation to jobs that are hard, dirty, and dangerous and those with high technology and heavy responsibility.

In the scope of overall wages, enterprises can reasonably use a bundle of wages, bonuses, and allowances to implement more labor more gain, less labor, less gain, and appropriately open up the wage disparity among personnel who are on the job and awaiting a job or in a trial status and between personnel in different jobs. According to need and capability, they should establish such things as wage reserve funds and enterprise supplementary old-age insurance to correctly deal with the relationship between immediate and long-term interests.

III. Pick Up the Pace of Reform of the Social Insurance System and Ensure Smooth Progress for Reform of the Labor Wage System

With intensification of the reform of the economic system and the aging of China's population, it is difficult for the former old-aged insurance system to adapt to the developmental needs of the economy. One, the coverage of social insurance is too narrow and unsuitable to the present need for long-term coexistence of multiple economic elements and it does not help workers to move between enterprises of different ownership systems. Second, single level social insurance does not help to insure workers' basic livelihood and workers themselves also lack an awareness of insuring themselves. Third, the structure and standards of treatment are not equitable. For example, for those workers who have been working since the country was founded, all those who have twenty or more years of longevity, retirement pay is 75 percent of their standard wages before retirement. But currently standard wages are only about 55 percent of total wages and cannot reflect the worktime contribution. Four, social insurance costs are constantly increasing and the state and enterprises have difficulty bearing them. According to statistics, in 1990 national worker insurance benefit costs reached 93.79 billion yuan, equal to 31.8 percent of total wages, more than 1100 percent increase over 1978. Of that, retirement costs have reached 47.2 billion yuan. Fifth is that the socialist level of administrative work is low. With the exception of unified raising, administration, and paying of social

insurance costs, a large amount of administrative services still are not totally separated from enterprises, which greatly affects the enterprises' concentration on production.

To adapt to the need to reform the economic system, in recent years the main reforms in old-aged insurance are for society to implement a unified plan for retirement expenses and to establish an old-aged insurance fund. By the end of 1991, except for a few remote border regions, the whole country had essentially implemented a municipal or county unified plan for state-owned enterprise worker retirement expenses, and Fujian, Jiangxi, Jilin, Shanxi, Hebei, Beijing, Tianjin, and Shanghai had implemented a provincial level unified plan, and Sichuan and Jiangsu will implement a provincial level unified plan. More than 60 million workers, approximately 82 percent of state-owned enterprise workers, participate in a unified plan at work and more than 12 million retirees, approximately 95 percent of state-owned enterprise retirees, participate in a unified plan. Annually more than 20 billion yuan in old-age insurance funds is taken in and more than 17 billion yuan is paid in retirement costs. Now a surplus of more than 10 billion yuan has been accumulated. More than 3 billion yuan of that is being used to purchase state bonds, that is to support national economic development and to provide funds to resolve the contradiction of the sharp increase in retirement costs that future aging of the population will bring. A unified plan for collective enterprise staff retirement costs is being implemented by more than 1,200 cities and counties, 52 percent of the cities and counties in the entire nation. To ensure that the unified plan proceeds smoothly, throughout the country, more than 2,900 social insurance administrative organizations have now been established subordinate to the labor department at the provincial, municipal, and county levels with more than 25,000 professional social insurance cadres in more than 2,000 offices of various types. There are more than 800 city and county banks or social insurance organizations that release retirement funds directly to retired staff, easing the burden of enterprises and giving retired personnel more convenience. A social insurance network from bottom to top has begun to be formed and its level of socialist administration has been rather greatly improved.

From the time that unemployment insurance was established in 1986 to the end of 1990, 420,000 state-owned enterprises and more than 70 million staff throughout the nation have participated in unemployment insurance. In four years, unemployment assistance and healthcare costs have been released to a total of 200,000 unemployed workers. At the same time, 750 bases to train people in other professions and 400 productive self-help bases also were set up to help several hundred thousand unemployed workers get reemployed. In addition, unemployment insurance organizations subordinate to labor departments also have given funds to

support enterprises that have partially stopped production or half stopped production to help these enterprises over a difficulty and reduce the unemployed people in society.

Reform of the work-related injury insurance system has already picked up. More than 2,000 cities and counties throughout the nation have established or strengthened labor appraisal committees. After several years of effort, a national unified Standards for Appraising the Degree of Work-Related Injury or Occupational Illness That Leads to Damage has passed expert approval and been sent down to be tested to fill a gap in the area of China's work-related injury appraisal. Reform of the work-related injury insurance system is being tested in thirty cities and counties in ten provinces to gain experience to implement the reforms across the board throughout the country.

Reform of the health insurance system is generally being initiated. The vast majority of provinces, autonomous regions, and municipalities throughout the country are actively investigating reform of the healthcare system and more than 80 percent of the enterprises are participating. For example, more than 5,000 enterprises and 1.3 million workers in Sichuan and 1,503 enterprises and nearly 500,000 workers in Qingdao are participating in this reform. One method of reform is for the staff and retired workers who receive medical treatment to bear a small amount of the medical costs. A second is aimed at the tight medical costs of medium-sized and small enterprises and establishes a unified social plan for workers' major medical expenses. Presently 81 cities and counties in 15 provinces have launched a trial unified social plan.

Reform of the social insurance system has already achieved initial success and has received large-scale support of enterprise workers and the whole society is watching it closely. The unified social plan for retirement costs especially has effectively preserved the legal rights and interests of retired workers, balanced the burden of enterprises, and maintained social stability.

Reform of the social insurance system is a difficult and complicated task. The goals and content of the reform are:

Reform of the old-age insurance system. In accordance with the State Council issued State Council Determination on Reform of the Old-Aged Insurance System and based on the level of development of China's productive forces and the vast and rapidly aging population, we must do a good job of handling the relations between state interests, collective interests, and individual interests, present and long-term interests, and overall interests and local interests. With the development of the economy, we must gradually establish a combined system of basic old-age insurance and enterprise supplementary old-age insurance and individual worker savings old-age insurance. We must change from the method of having old-age insurance totally guaranteed

by the state and enterprises to having the state, enterprises, and individuals bear it together. That is, individual workers also must pay some of the costs. We also should begin to experiment with linking old-age funds granted to wages during working years.

Reform of the unemployment insurance system. The unemployment insurance system is an important set of measures for reform of the labor system. The establishment of an unemployment insurance fund provides workers with the necessary economic assistance from the state and society during breaks in their employment to ensure their basic needs. It once again creates the conditions for their employment through such methods as training in other professions, productive self-help, and employment services. This reform orientation is to gradually broaden the coverage and the objects of the insurance while further improving current unemployment insurance methods, in accordance with the demands for the intensified reform of the labor system and the constant improvement of the social insurance system. At the same time, we should enhance the organizational and administrative and reemployment services for unemployed workers, achieve assurances of training in other professions for unemployed workers, promote a three-in-one socialized administrative services network for reemployment, and promote the formation of mechanisms for enterprises to flexibly adjust the work force and for workers themselves to select professions.

Reform of the work-related injury insurance system. The object of the work-related injury insurance system is to provide healthcare, assurance of livelihood, and economic compensation to workers injured or killed from work-related accidents and occupational illnesses and their dependents. The guiding thought and the main goal of the reform is that, beginning from the reality of China's vast territory, numerous mishaps, undeveloped economy, and uneven regional development, we must adapt to the need to reform the economic system and transform enterprise management mechanisms, look out for the interests of the state, enterprises, and individual workers and look out for current interests and long-term interests. We should smooth relations between the unemployed and retirees, establish a fund, bear the risk together, and enhance administration to help to properly handle accidents and reduce the burden of enterprises. We should organically combine work-related injury insurance and work-related injury prevention and occupational rehabilitation and better ensure the rights and benefits of workers and promote occupational health and safety and maintain social stability.

Reform of the health insurance system. The enterprise staff health insurance system is an important component of China's social protection system. The goal of reform is to take active and stable steps to gradually establish a rather highly socialized health insurance system equitably borne by the state, enterprises and individual workers that suits China's national character and expenses. At the same time, we should gradually establish an integrated health insurance fund system for

health expenses to be jointly raised from many quarters that grows to meet health needs and scientific effective health insurance administrative operating mechanisms that guarantee basic healthcare and equitably use health resources, and control unreasonable increases in health expenses.

IV. We Must Persist in Comprehensive and Complete Reform of the Labor, Wage, Insurance Systems

Each labor system reform is inseparably and organically linked to the whole, and linked together and interacting they each do their part. The labor system solves the problem of what form and what type of relations to establish between labor and enterprises. The labor system demanded by the planned commodity economy at its core is a labor contract system for all that protects the legal rights and benefits of both enterprises and labor. The wage allocation system plays a key role in establishing, consolidating, and developing this new labor system. Reform also is renewed adjustment in benefits. So, the success or failure of reform of the labor system depends on whether we can practice the principle of distribution based on labor and do a good job of reforming the wage system. Reform of the social insurance system is to guarantee that the workers are cared for when they are old and can get healthcare when they are sick, that their livelihood is assured when their employment is interrupted, and to relieve workers' anxieties. But reform of the labor employment, wage allocation, and social insurance systems are all permeated with the problem of the quality of the labor force. Reform must encourage workers to exert themselves to constantly improve their labor attitude and labor skills. With constant intensification of reforms of the systems, comprehensive and complete reform appears to be even more compellingly important.

First, reform of the labor, wage, and social systems must be closely centered on transformation of enterprise management mechanisms and enhanced enterprise vitality. The key to enlivening large- and medium-sized state-owned enterprises is transformation of enterprises' internal management mechanisms. So, reform of labor, wages, and social insurance must certainly have a view to establishing new mechanisms. Reform of the labor system is not simply to reduce workers, but is to establish competitive mechanisms. The purpose of wage reform cannot be only to increase wages. It is more important to appropriately open up differences in allocation and establish mechanisms for encouragement. Reform of the social insurance system cannot overemphasize charges, but it must expand socialization.

Second, we must inspire and arouse enthusiasm and self-awareness of enterprise reform. With the steady development of the commodity economy and market competition becoming ever more fervent, reform of the labor, wage, and social insurance systems is an irreversible trend of the times. But reform is a planned, measured progression. The state mainly determines the orientation and goals of reform and guides reform, but

specific organization depends mainly on enterprises. So, in reform we must pay attention to inspiring and arousing the enthusiasm and the self-awareness of enterprises and the broad masses of workers. Only with awareness and willingness for reform on the part of enterprises and the broad masses of workers can reform be smoothly carried out and achieve the success it should have. "Everything must be tested and after testing be further expanded" and "first stand up, then knock down" are the principles that reform must persist in. When the masses do not fully understand reform, we should permit them to have a look and wait.

Third, we should realistically do a good job of expanding political ideological work with workers. Reform of the labor, wage, and social insurance systems involves changing people's ideas and adjusting interests and cannot help but raise apprehensions in the minds of the workers. Thus, during the beginning to the end of reform, we must pay attention to propaganda, education, ideological, and political work, unifying their ideological understanding so that they can properly understand that reform represents their basic interests, thereby making reform their cause. During reform, special attention must be paid to ideological work with older workers, women, and cadres. Older workers have been employed by enterprises for several decades; in the past wages were low and their contribution was great. They are now worried that because they are older, they cannot compete with young people. Actually, older workers are experienced and their attitude toward labor is good; we must take necessary measures to protect them. The state has various regulations regarding protection of women's rights and interests, and these must be conscientiously implemented. In pursuing excellence and competition we must not arbitrarily reject women workers from jobs. Combining excellence with competition in filling jobs should first be practiced by cadres. Also, doing a good job on cadres ideological work is a key step in inspiring reform of the labor system.

Fourth, we must correctly handle the relationship between reform and development and stability. Reform is premised on stability and reform can further encourage stability. Only if we steadfastly promote reform can we accelerate economic development so that the country can maintain lasting peace and order. In promoting reform of the labor, wage, and social insurance systems, we must improve employment and maintain a stable employment situation. At the same time, we must do a good job of placing surplus personnel so that reform will regularly maintain a stable environment and conditions.

Fifth, intensifying enterprise labor, wage, and social insurance reforms, transforming enterprise management mechanisms, and doing a good job with large- and medium-sized state-owned enterprises is an important matter that concerns all the partys and the nation's people, requiring the common effort of party committees and government departments at all levels as well as every aspect of society. Relevant departments at every level of

government must give serious attention to reform and closely cooperate and coordinate their actions with it so that all policy measures can actually be put into practice and they must conscientiously transform government functions, enhance investigation and study, promptly grasp the developmental trends of reform, pay attention to reviewing their experiences, and resolve problems that arise in reform so that they can provide policy direction and service to reform.

AGRICULTURE

Article on Grain Supply, Demand Situation

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[Article by Zheng Jingping (6774 0079 1627) and Zhang Yingxiang (1728 5391 7449) of the Comprehensive Department of the State Statistical Bureau: "An Analysis of the Current Situation of Grain Supply and Demand in Our Country and Development Prospects for the 1990's"]

[Text] 1. The New Grain Situation in Our Country Where Supply Exceeds Demand

For a long time now, the increase in population and the relative decrease in arable land has resulted in grain always being seen as the "strategic material" in which our country is most greatly lacking. Even though, since the beginning of reform and opening up, there has been very high growth in agricultural production, and grain production has seen repeated years of record output, people still feel that our country's grain supply-demand situation is still very tight, and they see the present situation of "it's being difficult to sell grain" as a problem of warehouse capacity being insufficient or of structural imbalance. Actually, such views are not complete. Although, seen from the development trend, our country's grain supply-demand situation has still not completely left the tight situation behind, seen from the near term, a new phasic situation of supply exceeding demand has indeed appeared. This is manifested in the following:

First, seen in terms of annual grain output volume and total domestic demand (including grain used for livelihood, grain used for production, and waste), beginning in 1989 there have been three successive years where production has exceeded demand (See Table 1)

Table 1—Balance of Grain Production and Demand in China (Unit: 10,000 tonnes)

Year	1989	1990	1991
Production Output	40,755	44,624	43,524
Total Volume of Domestic Demand	40,278	41,513	42,342 (Estimated)

It is worth pointing out that the situation of production exceeding demand over the last three years has not only been sustained for quite a time, but has also been achieved under a situation where domestic demand has been freed, that is to say, it has been achieved in a situation where there has been normal growth in grain consumption demand. This has never happened before.

Second, seen in terms of regional distribution, there has been a marked alleviation in production-sales imbalances. In 1989, half the provinces throughout the country produced less than the demand in their province. In 1990, only one-third of provinces produced less than their volume of demand. However, because of the disparities in distribution of means of production among regions, we cannot and should not require that all regions realize a production-sales balance for grain. Even under the existing situation, if we look at the structure of grain products, we see that even some regions which import grain now have a situation where "selling grain is difficult."

Third, seen in terms of grain stocks, there have also been repeated years of great increases. At the end of 1990, grain stocks were up 46.1 percent as compared with 1983, an average annual increase of 9.9 percent. The total grain stocks also greatly exceed the internationally recognized safety limit for grain stores.

Fourth, seen from the price of grain, in the last two years, a situation of price weakness has appeared. Since 1990, the grain price index for open market trading (with the previous year as 100) has seen quite large decreases over two years. The figure in 1990 was 81.4 and in 1991 it was 85.4, and it is predicted that in 1992 the price will continue to fall.

We believe: 1) Because of the liberation of the productive forces brought about by reform and opening up, the tight situation in grain supply and demand which has long restricted our country's economic development and the raising of the level of the people's livelihood has seen a great improvement, and the basic grain supply-demand relationship is one which fluctuates around equilibrium in accordance with whether the harvests are rich or poor. 2) As there were very good harvests in 1989, 1990 and 1991 and there was a decline in direct consumption of grain by residents and especially by urban residents, at present our country's grain is indeed seeing a situation where supply exceeds demand and the grain supply-demand contradiction has changed from being a quantitative contradiction into a supply-demand structural contradiction.

The factors which have promoted the current grain situation where supply exceeds demand are very numerous: There has been an expansion in effective supply of grain as well as a reduction in consumption; over the last 10 years, there has been accumulation of long-term surplus and the development of the productive forces has been promoted; there has been the correct

guidance by macroeconomic policies and there has also been an improvement in management of microeconomic production organizations.

Seen from the grain supply angle: 1) The speedy growth of grain output expanded effective supply. Per unit area yield for grain rose from 169 kg per mu in 1978 to 262 kg per mu, an average annual growth of 4.3 percent (calculated in accordance with the cumulative method), which greatly exceeded the natural rate of increase of population. Although the proportion of land area sown to grain has declined, the decline is very small and the great increase in the per unit area yield of grain has not only made up for the decline in the proportion of land sown to grain but has resulted in the gross output volume of grain increasing every year. This has essentially alleviated the tight grain supply-demand situation which had been seen in our country for a long time. 2) The accumulated grain surplus over the years has expanded grain supply. According to a sample survey of per capita stored grain of peasants living in rural areas, the figure for 1990 was 80.3 percent up on the 1983 figure. 3) Imported grain has played a definite regulatory role. In the 1980's, imports of grain totaled 138.4 million tonnes, while exports totaled 55.62 million tonnes. If we offset the exports against the imports, we see that there were net imports of 82.78 million tonnes. Of this, there was a net import of 46.82 million tonnes during the Sixth Five-Year Plan, equivalent to 2.53 percent of total production volume over the same period. During the Seventh Five-Year Plan, the net import volume was 35.96 million tonnes, 1.76 percent of total production volume over the same period.

Seen from the angle of grain demand, since the middle of the 1980's, following the resolution of the problem of feeding and clothing people, there has been a notable increase in choice for consumers and a marked rise in their demand for quality and variety. This has resulted in domestic consumption entering a relatively stable period. At the same time, following the raising of the level of the application of science and technology, the comprehensive use rate of grain has been raised, and grain-saving factors have increased. These two aspects have produced a steady growth in our country's grain consumption. 1) In the 10-plus years since the beginning of reform and opening up, there has been a move toward diversification in the food structure of urban residents, and there has been an annual increase in per capita intake of meat and other animal products. The per capita consumption of pork, beef and mutton grew from 8.4 kg in 1978 to 18.4 kg in 1990, meaning a growth of 1.2 times in 12 years. The per capita consumption of eggs rose from 1.97 kg to 6.27 kg over the same period, while consumption of aquatic products rose from 3.5 kg to 6.53 kg. The great growth in consumption of meat and other animal products resulted in per capita direct consumption of grain remaining fairly stable or falling slightly, after having reached the peak necessary for being well-fed. In the 1980's, the per capita direct consumption volume of grain in our country rose by 1.8

percent every year (calculated on a cumulative basis). Of this, the period 1981 to 1985 saw an average annual growth of 3 percent. The period 1985 to 1990 saw a decrease, with an average annual decline of 0.9 percent. By 1990, the per capita volume of directly consumed grain had fallen to 280 kg from a figure of 290 kg in 1986. This aspect alone resulted in the country realizing a net saving of 11.35 million tonnes of grain. Of course, the increase in meat being consumed meant an increase in the amount of animal feed necessary. However, the increase in the quality of life and the reduction in food grain greatly exceeded the growth in feed grain. 2) Following the progress of science and technology and the application and spread of science and technology in the industries of agriculture, animal-raising, sideline industry and fishery, the grain-saving factors also saw a growth. For example, because of the success and propagation of scientific planting, rational close planting and the cultivation of many outstanding new strains, there has been a year-by-year reduction in the volume of grain used for seed. Also, the re-use of the by-products of grain-processing industries has greatly reduced the volume of grain used for animal feed. 3) The progress of science and technology has resulted in an increase in the speed at which livestock becomes ready for market, and thus the amount of grain needed to feed them up to this stage has seen a relative decline.

To sum up, the increase in the effective supply of grain in our country and the relative stability of immediate effective demand for grain has brought about a reversal of the situation of grain shortage which had long existed in our country, and resulted in a situation where there is a limited excess of supply over demand for grain. Of course, seen from the trend of development, following the reduction in our country's cultivated land and the natural increase in population, the grain question will remain one of the major questions which we cannot afford to ignore. However, following the raising of the standard of living of the people, the focal point of the grain shortage question will gradually switch from overall quantity to the structural aspect.

2. The Basic Situation of the Grain Supply-Demand Relationship in Our Country in the 1990's

Following our country's grain supply-demand relationship's having gone through the situation prior to the 1970's of supply not meeting demand and the situation in the latter part of the 1980's where there was a limited excess of supply over demand, what will occur in the 1990's? Based on the fact that our country has a huge population and our grain supply must rely on our own productive capacity, our analysis will mainly look at the grain production and consumption situation in our country over the next 10 years. The two major elements affecting grain production are the area sown to grain and per unit area yield. The area sown to grain will, following the increase in population, the advance of the process of industrialization and the development of urban construction, see a decline. Comparing 1990 with 1980, we see that the cultivated area fell by 55.49 million mu, an

average annual decline of over 5 million mu. However, our country has some wasteland which should be farmed and which can provide for further development. In addition, the further improvement of the multiple-crop index for agricultural crops will make up for some of the reduction in cultivated land. It is predicted that in the coming 10 years the area sown to grain will be maintained at the average level of the Seventh Five-Year Plan or will see only a slight decline. In terms of the per unit area yield, of our country's cultivated areas, over two-thirds are still medium- or low-yield fields. Following the development of science and technology and the spreading and application of the results of scientific and technological research, and, in particular, the strengthening of the transformation of these medium- and low-yield fields, in the coming 10 years, per unit area grain output will be raised, but the rate of increase will not surpass the average level during the Seventh Five-Year Plan period (calculated on a cumulative basis, during the Seventh Five-Year Plan period, our country's per unit area grain output grew at an average annual rate of 1.6 percent). On the basis of the above analysis, we have made calculations on the basis of two scenarios in grain production trends over the coming 10 years: 1) The first is an optimistic appraisal. That is, the area sown to grain will be maintained at the average level of the 1980s (average annual figure of 1.683 billion mu), while the per-mu output will grow at the same speed as during the Seventh Five-Year Plan. The second is a scenario which makes allowances for unforeseen circumstances. Under this, the area sown to grain will be about the average level during the Seventh Five-Year Plan (an average of 1.674 billion mu), and the per unit area output will see an average annual growth of 1.4 percent. The results of these two scenarios can be seen in Table 2.

Table 2—The Development Trend of Our Country's Grain

Year	Production Over the Next 10 Years (Unit 10,000 tonnes)	
	Grain Output (Upper Limit)	Grain Output (Lower Limit)
1991	44800	44728
1992	45517	45095
1993	46245	45727
1994	46985	46367
1995	47737	47016
1996	48501	47674
1997	49277	48342
1998	50065	49019
1999	50866	49705
2000	51680	50401

As agricultural production is greatly subject to the influences of nature, there are always fluctuations in total output volume of grain. However, by the year 2000, it is

possible that the total output of grain in our country will exceed the 500-million-tonne target set down in the 10-Year Program.

The major elements affecting grain consumption are the total population and per capita consumption of grain. Our country has put great efforts into implementing family planning policies and, following the rise in the level of the cultural and material lives of the people, changes will gradually occur in people's concepts of childbearing. Thus, the age at which people have children will become gradually later. It is predicted that in the next 10 years, the average annual natural increase in population will be higher than the 1990 level. The raising of the standard of living of residents in our country in the 1990s will mainly involve raising the quality of life, and the per-capita consumption of grain will not see a great increase. We have, through two methods, estimated the future development trend of grain consumption. One method reveals that in the next 10 years, the per capita grain consumption will be maintained at the 1980s average level (368 kg per person annually). The other method indicates that on the basis of the average level of consumption in the 1980's, there will be an annual increase of 0.5 percent and that the natural rate of population increase will be maintained at the 1990 level of 14.39 per thousand. The results of these calculations for our country's grain consumption over the next 10 years can be seen in Table 3.

Table 3—Basic Trend of Grain Consumption in Our Country Over the Next 10 Years (Unit 10,000 Tonnes)

Year	Average Population	Domestic Demand (Lower Limit)	Domestic (Upper Limit)
1991	115152.0	42376	42588
1992	116808.0	42986	43417
1993	118489.9	43604	44262
1994	120195.0	44232	45123
1995	121924.6	44868	46001
1996	123679.1	45514	46897
1997	125458.8	46169	47809
1998	127264.1	46833	48740
1999	129095.4	47507	49688
2000	130953.1	48190	50655

By summing up the future domestic grain production potential of our country and trends of changes in consumption, we can discover that provided that there are no sustained natural disasters or other problems, over the next 10 years the basic situation of our country's grain supply and demand will be: In terms of overall volumes, there will be a basic balance, with a small surplus; on the structural level, in the direct grain consumption of residents, the proportion of high-quality grain will rise further; while in grain consumption there will be a further increase in the proportion of grain turned into meat and other nonstaple food products.

3. Proposals on Handling Well Our Country's Supply-Demand Situation in the Future

Seen overall, during the 1990's there will basically be no major problems in our country's supply and demand of grain. However, that is not to say that we can relax and not concern ourselves with it. Rather, we must put great efforts into guaranteeing that the average annual area sown to grain remains at 1.674 billion mu and that the per unit area output of grain grows at 1.4-1.6 percent. In order to alleviate the negative effects brought by the temporary contradiction of supply exceeding demand, we need to adopt appropriate countermeasures which are suited to local situations.

1. We must stabilize grain production and appropriately readjust the grain production-consumption structure. 1) We must strengthen the capital construction of fields, expand agricultural investment, transform medium- and low-yielding fields, and improve the capacity of agriculture to withstand natural disasters. 2) We must strengthen scientific and technological research in agriculture and the work of propagating and applying the results of scientific and technological research, and establish and perfect a socialized service system for agricultural production, so as to stabilize and increase per unit area yield of grain. 3) We must firmly control the spread of nonagricultural use of land and, as far as possible, reduce the occupation of cultivated land. We should also adopt preferential policies to encourage peasants to open up wasteland, expand multiple cropping and make efforts to maintain the area planted to grain at between 1.6 and 1.7 billion mu. 4) We must appropriately increase the construction of grain storage facilities, to increase the capacity for storage and the technological level of the storage, so as to reduce production-marketing-storage contradictions. For national storage, in order to maintain a supply-demand balance and stable prices, our country's grain storage facilities should be maintained at 34 million tonnes. 5) On the basis of changes in the domestic grain consumption structure, we must stress the appropriate readjustment of the grain production structure. Here, we must particularly stress the changing of the concept that holds that grain production is only a problem of total quantities and which ignores structural contradictions, and spread the new generations of grain strains.

2. We must strengthen economies and raise the economic efficiency of grain use. The structure of grain consumption and volume of consumption naturally changes following the raising of the standard of living of the people, and we should not interfere through state policies. However, the state should put great efforts into guiding and encouraging economizing on grain. Economizing on grain must first rely on the building of spiritual culture and raising the whole nation's consciousness of loving grain and valuing grain. Second, it must rely on economic measures. That is, the sale prices of grain and its by-products should be appropriately raised. Thus, great efforts must be put into resolving the problems of storage volumes for grain and ensuring that

there is a proper level of storage, so as to prevent the great waste resultant from storage capacity being insufficient and from poor storage quality.

3. Through establishing an ordered agricultural product futures market as the core, the grain circulation system must be perfected. The production cycle of grain is long. In the production process, there are many uncertain factors and thus there is a great dependence on natural conditions and weather conditions. Thus, it is very risky to engage in large-scale grain trading directly through spot trading. The system of unified purchase and unified sale of grain, as adopted by the state, on the one hand sets firm limits on purchase volume and purchase prices, and on the other hand sets firm limits on grain consumption volume and prices paid by residents. The result is not only that the state has to annually pay out a large amount in grain price subsidies, but also that this produces a situation which is not beneficial to economizing on grain and fully mobilizing the production enthusiasm of grain farmers. It is even more disadvantageous in terms of organizing grain production in accordance with market demand. The major avenue for resolving the above-mentioned problems is to establish a grain futures market, and to carry out large-scale trading of grain through futures contracts. This will completely turn around the passive situation in the grain circulation sphere.

Author's footnote: During the preparation of this article, Comrades Zhang Zhongji [4545 6988 1015], Qiu Shaohua [6726 2556 5478] and He Jianmin [6320 0494 1404] participated in discussions and put forward valuable ideas.

Proposals for Improvement of Hog Market Management

92CE0680A Beijing NONGMIN RIBAO in Chinese
28 Jul 92 p 1

[Article by Yang Qunyi (2799 5028 5030) and Peng Guigu (1756 2710 0151): "Why Can't Hog Management Be Moderated?"]

[Text]As an important part of advancing the reform of the agricultural product circulation system, improving hog management, effecting market regulation, and developing multichannel competition are a general trend. However, up to today, in some areas hog management still cannot be loosened up and enlivened. What is the reason? Recently, our survey of some cities and counties in northern Jiangsu found that the crucial reason is that the relationships in profit distribution in hog management is not smooth, and that contradictions create friction in the multisided profit structure.

The revenue-sharing system impedes and restrains multichannel management. After the revenue-sharing system was put into effect, the original "eating out of one big pot" system, in which the revenue and expenditure of local financial systems were unified, was changed into the "eating in separate dining rooms" system. Invisibly

this increases local economic pressure, strengthens local economic protection, and encourages monopoly management of agricultural products. Speaking of hog management, in accordance with the stipulations of the existing policy at all levels, for every hog that is managed, there are five or six kinds of local financial system taxes and charges by relevant departments, amounting to more than 40 yuan. In general the taxes and charges for township-town hog management accounts for about a third of the total township taxes and charges. Without a doubt this is a piece of "fatty meat" for the economically backward townships and towns and a key protected tax source.

The lag in market growth restricts multichannel competition. From a look at the general laws of a commodity economy, there must be two conditions for loosening up hog management and bringing hogs under market regulation: the first condition is equality in the market competition environment; the second condition is flexibility in price adjustment mechanisms. Now, in the greater part of the localities these two conditions are not completely ripe on the hog market. For example, in the market competition environment, in hog management the state-run food departments, besides discharging the state's taxes, must pay into the relevant local departments' agricultural development fund and must pay the health quarantine fee and hog organization fee. Although the individual "small sword fees" in hog management also require the payment to the higher authorities of identical taxes and fees, because there has not yet been an accounting of them, the problem of tax and fee evasion is extremely serious, management profits are quite plentiful, and the leeway for enlivening prices to promote sales is fairly large. In this respect it is very difficult for the state-run food departments to engage in well-matched competition. Also, for example, in the aspect of price-regulating mechanisms, at present a large amount of the meat subsidy in large- and medium-sized cities in the marketing area has been put on the market. Although this plays a positive role in stabilizing hog market prices, to a certain degree it distorts the price-formation mechanisms on the hog market and restrains the regulating role of the law of value, causing a distortion in the relationship of supply and demand on the hog market, which is detrimental to brisk competition and open business.

These problems in hog management not only adversely affect the production, supply, and marketing of hogs, but also cause a large erosion of tax sources because of black market business. To effect a benign cycle in the production, supply, and marketing of hogs, and to smooth out the relationships of interests at each link, so that hogs smoothly make the transition from unified management to multichannel management, the following measures can be taken:

1) Set up, level by level, hog wholesale markets. Setting up hog wholesale markets, which are multifunctional, long-distance radiating, and open type, is one important condition for loosening up hog management. Townships

and towns can make use of the hogpens, sites, and other existing service facilities at food centers. Doing things simply and thriftily, in changing to running some elementary wholesale markets the provinces, cities, and counties can adopt the method in which the state, collective, and individual work together in organizing the forces on all sides, effecting multichannel funds collection and, in key hog production and marketing areas, setting up some regional comprehensive wholesale markets. In the unified hog wholesale market, there will be unified quarantine, lawful payment of taxes, fair competition, and free trade, fully displaying the market's functions for hogs of price formation, commodity collection and distribution, and information transmission, and better guiding hog management in the direction of switching tracks and changing type toward marketization.

2) Transform the management mechanisms of food departments. That the management of hogs by state-run food departments, from the past guarantee system of the state monopoly on purchase and marketing, is directly turning to the market to engage in competition, is a large-span transformation that faces many difficulties. Governments at all levels must formulate some tilting policies, and they are dutybound to help it tide over temporary difficulties; and the state-run food departments themselves even more must, with a positive attitude, consciously transform their market mechanisms in order to suit the new situation after management freed up. First, competitive mechanisms must be introduced into department units to enhance the consciousness of risk on the part of the cadres, staff and workers and their strong sense of responsibility and sense of urgency. Next, the operating and marketing tactics must be vigorously readjusted. The state-run food departments must fully display their superiority in funds, technology, equipment, and information; base themselves on their own localities; and vigorously develop external markets. They must develop in the direction of comprehensive management of major foods external purchase and external sales management, export-oriented management, and organic management

of production and marketing; vigorously form specialized group companies; swiftly form a competitive superiority; and undertake the role of the main channel for state-run food departments.

3) Promote the organic development of the production and marketing of hogs. After hog management is loosened up, we must vigorously guide the state-run food departments, foreign trade departments, meat-processing enterprises, and large households specializing in purchasing and marketing—with organic service as the common link, and with hog households setting up their organic management organizations in production and marketing that take risks in common and obtain equal profits—so that hog production serviced there is a coordinated process from fine-breed introduction (cultivation), feed supply, prevention and cure of epidemic diseases, technological guidance, and purchase and processing to earning foreign exchange by exporting.

4) Improve the market competition environment for hog management. With regard to the costs of the multichannel items taken in at the hog management links, governments at all levels must make an item-by-item inventory; in the spirit of seeking truth from facts ban some irrational fee collections; draw off water to rear fish; and let the hog production managers have good prospects for gain. Industrial and commercial tax departments must strengthen their tax revenue control of hog management, plug up loopholes for tax evasion, and for the state-run collectives that have not yet set up accounting management units the method of levying taxes to be paid to the higher authorities can be adopted, so that the state-run, collective, and individual multichannel tax burdens are made equal and they are put on the same starting line for fair competition. The state must accelerate the pace of the reform of the revenue-sharing system; as soon as possible put into practice the financial control system in which there are separate flows for taxes and profits; and, in order to comprehensively lessen the management of hogs, eliminate interference in local economic interests, step-by-step establish a new order for multichannel hog management, and promote a rational circulation of hogs between regions and at every link.

New Characteristics of Abduction of Women, Children

92CM0391 Shanghai SHEHUI [SOCIETY] in Chinese
No 89, 20 Jun 92 pp 23-24

[Article by He Jichuan (0149 3444 1557), Hunan Provincial People's Government Research Office: "Characteristics of and Countermeasures for Abduction Cases"]

[Excerpts] [passage omitted]

At present, criminal abductions of women and children exhibit the following new characteristics:

1. Traders in people work in areas of ever increasing size. At present, criminal abductions have grown from a minority of poor regions to a nationwide scale, extending even to medium-size and large cities. Prior to 1986 in Guizhou province, abduction cases of women and children mainly were concentrated in ten or so counties including Zhenning, Liuzhi, Nayong and Tongzi. Since 1987, this type of criminal activity has spread province-wide to 87 counties, cities, and even the provincial capital in Guizhou's nine districts, prefectures and cities. More than 90 percent of abduction cases of women and children in Shaanxi used to be concentrated in the province's mountainous areas. Since 1989, however, cases have clearly risen in Xi'an, Xianyang, Baoji and other medium-size and large cities. In the past in Anhui abduction cases were limited to a few counties along the Huaihe River and north of it; now they have spread south to all 16 districts, cities and towns. There never had been an abduction case in Langxi county of southern Anhui, but in 1990 there were 113 cases. The targets of abduction have spread from mainly Sichuan, Yunnan, and Guizhou to many provinces in the southwest, northwest and south central China.

2. Traders in people are harming ever more people. Criminals abduct not only village girls, but also female urban workers; service personnel; elementary, middle school, college and graduate students; and scientific and technical workers. Between January 1989 and March 1990, four traders in people in the city of Guilin abducted 26 women, six of whom were urban girls. Some traders abduct not only Chinese women but also illegal immigrants from Vietnam, Burma, and other countries. Since 1989 when Vietnam opened the Sino-Vietnamese border, some Vietnamese women have illegally entered China to look for husbands or make a living, providing opportunities to illegal elements. According to incomplete statistics from public security frontier defense sectors in Guangxi, since January 1989, 27 cases have been solved involving abductions of Vietnamese women; 62 traders in people have been captured, and 41 abducted women released. At the same time they discovered that women had been sold to 17 provinces and municipalities and 27 counties and cities in the region. Moreover, 2,716 Vietnamese women were chased back across the border.

3. Age of abductees are increasingly younger. At present, abductions of young girls and babies are on the rise. Statistics from 19 cities, districts, and prefectures in Sichuan show that in the first nine months of 1990, 1,562 young girls and 713 babies and children were abducted, up 16.49 percent over the same period in 1989. Of 336 children abducted between 1987 and March 1990 in the Wanxian area, 116 were less than one year old, 99 between one and six years old, and 121 younger than 14. Of 77 elementary and middle school students abducted in a survey of Chongqing, besides one upper middle school student, there were 50 junior school and 26 elementary schools students, for a total of 76, 98.7 percent of the total. The oldest was 19 and the youngest only 12. Fifty-six girls were under 18 years of age, or 72.7 percent; 16 were under 14 years old, or 20 percent. Of the 139 abductees released in Dingyuan county, Anhui Province, in recent years, 100 were young women or girls.

4. Campus abductions increasingly serious. Recently, the Chongqing anti-abduction office made a preliminary study of campus abductions of female students in Qijiang, Yongchuan, Bishan, Dazhu, and Rongchang counties. It discovered that 28 female students were abducted in 1989, and 49 in 1990, up 75 percent. Of these 77 students, 71 or 92 percent of the total were from rural middle and primary schools. Forty-three of that number were from rural middle schools, 28 from village primary schools, six from county middle schools and two from the suburbs.

5. Sharp rise in crimes by gangs. In the beginning, the majority of traders in people who abducted women and children were individuals who transported them long distance single-handedly. In recent years, the activity has grown to involve internal and external linkages. The former "single catch" has grown into the present "coordinated operation" with links in a line from abduction, delivery, transfer, and sale. It constitutes an underground network with a rather serious division of labor: "central transfer stops," "communication lines," and "lodging spots." Criminal gangs include primary, secondary, tertiary, and quaternary abductors. According to incomplete statistics, only from May to October 1990, 2,630 human abduction and trade gangs were caught with 10,309 members nationwide. Some 3,656 gang member traders in people were captured in Hunan, or 95 percent of those caught. From early 1987 to September 1989, 310 or 78.3 percent of the 396 traders in people arrested in Shandong belonged to gangs. A village in Yangu county, Shandong, had a unified gang of nearly 60 traders in people with external links. In seven months' time they abducted 43 women from Guangxi, Sichuan, and Henan. In June 1990, the Public Security Bureau of Danleng county, Sichuan uncovered a criminal gang of traders in people from Sichuan and Anhui who pretended to be public security police. The gang had already abducted 12 women and children. In Anhui, along and north of the Huaihe River, there are "specialized village" and "specialized household" traders in people. In some

villages, several dozen people actually abduct others for gangs. In Ganggao county, Shaanxi, one party branch secretary led ten local friends and relatives abduct 11 women.

6. More heinous abduction methods used. In addition to swindling people under the name of "introducing mates," "seeking employees," "business partners needed," and "travel," criminal elements now also used violent force and drugs to knock out and kidnap women and children. Once an innocent woman falls into the hands of traders in people, she may encounter every brutality. Before being sold off, many women are raped or gang raped by their abductors. Some are illegally imprisoned or lose their personal freedom. Others are sold back and forth like beasts of burden. Still others are harmed, injured, or even killed with drugs from their abductors or masters. According to a survey in Guizhou Province, in 1988 there were less than 100 cases of stealing babies and children; in 1989 the number shot up to 519. In the course of the cases, the criminal elements brazenly used lethal weapons to enter rooms and used force against the guardians of babies and children. Four parents have been killed, 51 wounded, and eight children killed. Since 1989 in Anhui, more than 21 cases have been uncovered involving knocking women out with drugs to kidnap or abduct them. After abducting women, some criminals rape and then sell them. The degree of their cruelty makes one bristle with anger. In the hamlet of Xiangtun, Zuozhuang village, Fengcheng district, Zaozhuang city, Shandong Province, a peasant named Sun Zhongqiang has abducted six women since 1988. He raped them, all before selling them. He held two in his house for a long time and raped them repeatedly. He has since been legally sentenced. In Yanggu county, Shandong, three criminals gave a sleeping pill in a drink to a woman from Mianyang, Sichuan, aboard a train. While knocked out she was taken to Yanggu, repeatedly raped, and then sold. The partners of some intercept vehicles to kidnap women and send them elsewhere. One gang of five members in Yanggu discovered that a long-distance van was carrying a woman with a Guangxi accent. Wielding daggers they blocked the vehicle, kidnapped the woman, and sold her for 2,400 yuan. Some motorcycle drivers specifically select objects for kidnapping at long-distance vehicle stations. Traders in people even think of ways to abduct ill female students. In Xinwei village, Qijiang county, Chongqing, a female junior middle school student suffered from a mild mental illness. When she went to Qijiang county for treatment in April 1990, she was baited by traders in people under the pretext of going to Henan to earn a lot of money in business. Instead, she was abducted to Qiaotou village, Sheqi county, Henan, and sold for 1,975 yuan to a peasant twice her age as his wife. She refused; he shackled her to the foot of his bed and beat her brutally with iron wire until she was a mass of bruises.

7. Abductions increasingly covert. In recent years, to avoid being caught and assailed, traders in humans has changed from an open to a covert activity. Criminal

elements stealthily set up shelters and transfer points along an underground exchange. In a certain village of Shen county, Shandong, several rooms were rented to traders in people from elsewhere. Thirteen women from other provinces were sheltered there at various times before being sold. In the past, trading in people involved a transaction between one trader who dealt directly with the buyer. Second and third traders acted as brokers or middlemen who sought profits. Now all three traders take a hand and up the price. In addition, in the past, abductees were turned over daringly at certain spots in broad daylight. Now traders work at changing spots to set up the transactions but conclude them at night in fields. It is difficult to capture primary traders because the cases are increasingly covert. Although the second and third ranks are caught, it is hard to verify their roles. Guilt and punishment are not easy to determine. This affects anti-crime efforts. [passage omitted]

Hunan Reports Ten Executions

HK3008044792 *Changsha Hunan People's Radio Network in Mandarin* 2300 GMT 29 Aug 92

[Excerpt] Yesterday morning [29 August], Changsha City Intermediate People's Court held an open judgment-pronouncing rally to pass convictions on Dong Heping and nine other heinous criminal offenders. In accordance with the death penalty order given by the provincial higher people's court, these 10 criminals were identified, escorted to the execution ground, and executed. Among the 10 criminals executed yesterday, seven were murderers. Some of them had committed physical assaults and murders with utter disregard for human life; some had murdered their wives because of family discord; and some had murdered people for their money to cover the expenses of pleasure-seeking. They were all ruthless, and their crimes were heinous. [passage omitted]

Factors in Mental Health Problems of Students

92CM0390 *Shanghai SHEHUI [SOCIETY] in Chinese* No 89, 20 Jun 92 pp 44-45

[Article by Wang Xiaogang (3769 2556 0474)]

[Text] Various surveys regarding the mental health of college students in recent years all reflect this fact: the mental health of college students is worrisome. This can be seen in the following. One, a rather high percentage of college students have poor mental health. In early 1989, the State Education Commission took a sample survey of 126,000 college students nationwide. It discovered that 20.23 percent of China's college students suffer from mental illness. Two, incidences of all types of mental illnesses are on the rise; they have become the students' major reason for leaving school or taking a leave of absence. A survey of 16 colleges in Beijing revealed that during the decade from 1978 to 1987, the proportion of students who withdrew or took leaves of absence due to

mental illness rose year after year. Prior to 1983, contagious disease was the number one reason for withdrawing from school. After 1983, mental illness took its place.

The author has had long-term contacts with college students during several years in psychological counseling at institutes of higher education. I believe that the main factors affecting the mental health of college students are the following:

1. Rapid changes in society.

Change is rapid in modern society. High efficiency, a rapid tempo and intense competition make members of society tensely excited. This greatly adds to mental pressure. Therefore, good mental endurance and adaptability are essential psychological factors for life in modern society. Yet, many young people today, including college students, lack them. It is hard to avoid the appearance of a great number of mental health obstacles.

2. The influence of negative life situations.

Negative life situations often pose a more direct threat to mental health. They are an important factor affecting it. College students face the following main negative situations in the peculiar environment on campus:

1. Changes in one's life environment. The greatest challenge to college freshmen is adapting to college life. They face varying degrees of difficulty in adapting to environmental, role and lifestyle changes; unfamiliarity with independence, adaptability and sociability; plus a lack of ideological and psychological preparation. For a long time, intense homesickness, college life worries, panic, anxiety and restlessness eat away at their naive and fragile minds, seriously affecting their mental health.

2. Complex interpersonal relations. Harmonious interpersonal relations bring satisfaction, joy, friendship and an even temperament. Inharmonious relations create tension, conflict, animosity, and isolation. Psychologically imbalanced interpersonal relations threaten one's mental health, leading to mental illness.

In college, students have many opportunities to spend the entire day together, studying, living together, and interacting in many ways. This, plus competition with fellow students all add up to more complex and difficult interpersonal relations than in middle school. Many of China's college students lack the necessary awareness of and ability to interact. They also lack the needed personal qualities to handle it well. Many students often feel pressured by interpersonal relations, even leading to crises. Interpersonal relations and the mood obstacles that result account for a large proportion of the reason for psychological counseling.

3. Study and exam pressures. Ordinarily, pressure from studying is not great for the majority of students. However, there really are some students who feel pressured

either because of low efficiency due to poor study habits; cannot keep up because of a weak foundation; or are weighed down by studies because of poor grades. They bury their heads in books all day and lack needed rest. Others are overly anxious about grades, leaving them always in a state of high tension. This brings on mental fatigue and various mental problems.

4. Romance problems. College students are in the prime of youth. They hope to get closer to the opposite sex. Their collective life and the free and liberal college environment provide a good opportunity for male-female contacts. In addition, many works of literature, movies, and television exaggerate love between males and females. All of this makes for many campus romances. Some students new to campus life are affected by their seniors and quickly become entrapped in romances. However, because many college students (especially lower classmen) are unaware of their feelings regarding love or lack the ability to understand it, the campus has no really effective way to guide them. Instances of disappointment, unrequited love, and romantic conflicts are commonplace. Romance often turns negative, affecting not only their studies, lives and work, but also brings on varying degrees of mental trauma. After suffering a romantic setback, some students easily fall into a bad mood or low spirits. Those more affected may be pained to no end, act abnormally, and may even harm themselves or others.

5. Post-graduate work assignments. This is what senior classmen think and worry about the most. Commonplace worries are that they will not get an ideal assignment or work unit. Some worry about being sent to the grass-roots level. They fret about being sent back to small towns that will be hard to escape from. Others are anxious because poor studies or appearances will affect their assignment. Female students worry that that work units will not welcome them. With respect to romance, they worry that they will be separated from their partners. The closer they are to graduation, the more students become anxious, worried, and restless, often bringing on mental illness.

3. Why students act independently.

Unhealthy stimuli from the outside world only provides opportunities and possibilities for mental health problems to occur. It is the internal factors of the individual that often determine whether these possibilities will become a reality. External excitement and internal factors combined determine the direction of changes in mental health.

1. Psychological characteristics of youth. Most college students on campus are between 17 and 24 years old. Considering the characteristics of the psychological development of China's young people, this is their youth. It is the time when the basic youthful nature of students fully develops and is exhibited most intensely. The main characteristics are: further development of self-awareness, but there is still a split between the ideal self

and the actual self; and the internal conflict between self-affirmation and self-negation. Second, the strong need for self-determination and independence. However, objectively, students find it hard or impossible to be independent. This is manifested as a conflict between dependence and independence. Third, their thinking is further developed, but because students lack actual experience, many thoughts often are divorced from reality and are subjective, so it is hard for them to obtain social recognition. They may often face reverses leading to dissatisfaction and restlessness. Fourth, the development of sexual awareness. Sexual impulses and reason often are in intense conflict. Especially because of incorrect ideas and a lack of knowledge about sex, the sex impulses make students feel panicky, restless, or condemnatory about one's self, or guilty; they are extremely uneasy about masturbation.

2. Immature outlook on life and the world. College students are precisely at the stage in which their outlook on life and the world is maturing, but still immature. This makes it difficult to make correct, rational decisions and appraisals about the objective world and circumstances. It easily brings on bad psychological reactions. Many students have negative moods.

3. Imperfect psychological factors. Most college students are in good circumstances. They have grown up under a protective umbrella. Few have had setbacks and hardships in their lives. They are not adequately prepared for life's possible setbacks and difficulties, given their immature world and life outlook plus overly high expectations. Negative moods often lightly and easily entrap them.

4. School education at fault.

The objective disadvantageous role played by faulty school education on students' mental health should be noted.

First, from primary school until college, schools always neglect to nurture students' non-reasoning factors (e.g., feelings, ambitions, personality, interests, likeableness). Schools fail to nurture students' good psychological factors or mental health education, affecting the healthy development of personality and good psychological factors. College students are rather well-educated but they know almost nothing about mental health. They are deficient in terms of social contacts, adaptability, and the ability to handle problems. The lack of these qualities means that it is hard for students to adapt to changes in society and the environment, to contend with the ever-increasing pressures of modern society and to deal with the unavoidable incidents in life. This brings on many mental problems and illnesses.

Second, primary, and secondary schools and colleges all lack psychological counseling and recovery services. Once students encounter a mental crisis or problem they cannot overcome alone, they often cannot get the necessary help from a school. They can only wait as it develops and endure internal suffering. The survey shows that 13.76 percent of junior high students suffer from mental problems. The figures for senior high and college students are 18.79 percent and 25.39 percent, respectively.

It was not until the mid-1980's in China that certain institutions of higher education had psychological counseling organizations for students. However, they are still far from common. Throughout society, especially the leadership of schools at all levels, and the majority of educators, ought to truly understand the mental health situation of college students in order to foster the overall development of high quality talent—moral, intellectual, physical, and labor. They should recognize the importance and pressing nature of mental health in universities. They should actually bring mental health education and mental health itself into the entire educational system and work of schools.

Military Forms Tri-Service Fuel Supply System

OW2908063092 Beijing XINHUA Domestic Service
in Chinese 0810 GMT 28 Aug 92

[Text] Beijing, 28 August (XINHUA)—Our armed forces have achieved gratifying results in reforming their logistic operations by instituting a preliminary joint, tri-service system for fuel supply.

Our military modernization drive requires efforts to "improve overall logistics capability, raise logistics efficiency, and institute a joint, tri-service logistics network at an early date." This is the general goal of reforming our military logistics operations. Establishment of the joint, military-wide fuel supply system offers useful experience in reforming logistics operations. Zhao Nanqi, director of the General Logistics Department, said: Reform of the fuel supply system indicates major progress. It has benefited the entire armed forces in three areas—intensive use of various installations, savings on military expenditures, and convenience for troops.

The joint fuel supply system for our armed forces has progressed from a backup supply system characterized by voluntarism and high-mindedness during the initial stage of reform to a joint supply scheme founded on

responsibility. It has also evolved from a loosely organized backup supply system based on conference-style coordination to joint operations under the full command of the Army, Navy, and Air Force fuel supply departments; from a logistics system that strictly links utilization with service affiliation to a logistics scheme at the common disposal of the three services; and from a fuel supply system that primarily serves as a backup operation to a joint, interactive, and interoperative supply system that combines supply, management, repair, training, and testing. Statistics show that since the joint, tri-service fuel supply system was instituted, various services of the armed forces have delivered approximately 400,000 tonnes of fuel under the joint system, have saved some 50 million km in criss-crossing and circuitous vehicular traffic, and have spared over 10,000 tonnes of fuel from irrational consumption. In all, they have saved more than 30 million yuan in expenses. Moreover, the joint fuel supply system has provided great convenience to the troops and improved their swift logistics capabilities. Vehicles on duty may refuel at any fuel depot under the Army, Navy, or Air Force within their areas of operation as long as they possess fuel tickets printed under the unified arrangements of joint supply agencies.

Legco Member Downplays U.S.- Hong Kong Policy Act

92CM0405A Hong Kong MING PAO in Chinese
19 Aug 92 p 51

[Article by Tang Yingnian (0781 5391 1628), Legco member: "Article Downplays Importance of Hong Kong Policy Act"]

[Excerpts] The Hong Kong Policy Act of 1992 passed by the U.S. Congress sets out U.S. policy toward Hong Kong after sovereignty over Hong Kong is returned to China in 1997. Its spirit affirms Hong Kong's unique position: after its return to China in 1997, Hong Kong would continue to be an autonomous region in the eyes of American law. All preferential treatment in bilateral relations enjoyed by Hong Kong thus far, including trade, tariffs, tourist visas, and immigration quotas, would continue unchanged for the next 50 years.

After the passage of the bill was reported in the media, reactions have tended to be somewhat extreme. Some people from the so-called democratic parties have expressed enthusiasm, arguing that the act has enormous significance for the full implementation after 1997 of the Sino-British Joint Declaration, the one country two systems principle, the notion that Hong Kong should be run by Hong Kong people, and a high degree of self-government for Hong Kong. They also believe that the act would work as a restraint upon China. The Chinese authorities and so-called pro-China figures, on the other hand, are as oversensitive and as vehement in their reaction, criticizing the United States for meddling in China's internal affairs. Of course, such a reaction was expected. The Chinese have always made it clear that it would not accept interference by any outside forces in Hong Kong affairs.

My position on the U.S. Hong Kong Policy Act is that the democratic parties may have celebrated too soon, while the Chinese have no reason to over react. In reality, the act may be nothing more than a political gesture, a show of moral support. When it comes to actually enforcing it, things could be a little more complicated.

The fact of the matter is that if the U.S. unilaterally wants to pass a law to protect the rights and interests of the citizens of another country, there is nothing a third nation can do to oppose or stop it. Probably a majority of the citizens of Hong Kong would not object to any move on the part of the U.S. or any other nation to pass legislation to protect their rights and interests. Yet the crux of the matter is this: Does the law have any real legal effects on Hong Kong? Is it really legally binding?

Needless to say, I believe that protected by the Joint Declaration and the Basic Law, Hong Kong will be able to achieve a high degree of autonomy after 1997, that Hong Kong people will run Hong Kong, and that this state of affairs will remain unchanged for 50 years, with Hong Kong enjoying prosperity and stability. But suppose—certainly we would not want this to happen—but just suppose China departs somewhat from the cardinal principle of one nation, two systems, how would the Hong Kong Policy Act work? Would the U.S. impose trade sanctions against Hong Kong?

The trade relations between Hong Kong and the U.S. have always been very close, the latter being the largest market for our exports. We have signed a host of bilateral trade agreements with the U.S., all of them legally binding on the international level. If the U.S. unilaterally terminates these agreements and imposes sanctions against Hong Kong because China fails to honor its commitments to Hong Kong, it will be acting improperly by violating international treaties, which would be unjustifiable. According to press reports, Article 202 of the act says that when developments in Hong Kong depart from the path laid down in the Joint Declaration, the U.S. President would have the power to terminate some or all of the treatments accorded Hong Kong but no other part of China. In other words, the U.S. would be free to target the unconditional most-favored-nation-treatment currently enjoyed by Hong Kong. [passage omitted]

The possibility is there, but if the U.S. were really to go ahead and impose trade sanctions on Hong Kong, it would be like kicking a man who is already down, since Hong Kong then would be a victim at the mercy of China. Such behavior would be impermissible in the international community. As for the idea of using sanctions against China, China already must put up with the nuisance of having to renew its most-favored-nation treatment each year. Will the treatment be made conditional next spring? That remains to be seen. In the final analysis, therefore, there is no need to restrain China with the Hong Kong Policy Act. If the idea is to punish Hong Kong, it would all depend on whether the U.S. President is willing to exercise such a power. A two-thirds majority in the Senate is required to override a presidential veto.

It is unrealistic to expect the act and U.S. pressure to consolidate the one nation, two systems principle. Whether or not Hong Kong can achieve a high degree of autonomy after 1997 will ultimately depend on how hard we work to keep the economy prosperous and bring about a smooth transition, as well as China's open policy. Other external forces could do nothing more than posture and would have no real effects. We need not take the Hong Kong Act too seriously.

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